2015 Annual Report

UNITED-GUARDIAN, INC.

Excellence Through Innovation®

COSMETIC INGREDIENTS

PHARMACEUTICALS

SPECIALTY INDUSTRIAL PRODUCTS

PERSONAL & HEALTH 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

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

Corporate Profile

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

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

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

2015 ANNUAL REPORT

to the stockholders of

UNITED-GUARDIAN, INC.

April 14, 2016

Dear Stockholder,

I am pleased to report that 2015 was another profitable year for us, with increases in both sales and earnings compared with 2014. It was also an unusual year due to some issues that arose during the year that were beyond our control but which impacted both our fourth quarter and year-end financial results. It was also the year in which we finally received FDA approval to market our new single-dose form of Renacidin®, a goal we have been working towards for several years. I will discuss the impact of all of these events later in this letter.

But first the financial results. Net sales for FY-2015 were up 4.1% over last year, increasing from $13,449,679 in 2014 to $14,006,244 in 2015. This resulted in net income increasing from $4,050,416 ($0.88 per share) in 2014 to $4,606,929 ($1.00 per share) in 2015. Sales of our personal care products, in particular our Lubrajel® line of water-based moisturizers and lubricants, increased by just over 5%, with virtually all of that increase attributable to sales of our Lubrajel Oil into China by our largest marketing partner, Ashland Specialty Ingredients ("ASI"). Sales of our products in Korea also increased significantly, but that increase was offset by a comparable sales decline in Europe, where we have been experiencing increased competition from lower-priced Chinese-made copies of our products that are being marketed by a Korean company.

In the fourth quarter of 2015 our sales of Lubrajel Oil into China, which had been very strong for the first three quarters of the year, decreased substantially. This was a result of ASI having purchased significantly more inventory for China than it needed based on its actual sales levels. Some of the build-up of inventory was caused by a regulatory issue in China that was unrelated to Lubrajel but affected sales of products in which Lubrajel was a component, and some was the result of lower Lubrajel sales due to increased competition in China from the lower-priced Chinese copies. Unfortunately, the excess inventory error was not discovered by ASI until ASI had accumulated enough inventory to last through the first half of 2016. As a result, there have been no significant purchases of that product by ASI for sale in China since September 2015, and, based on their most recent projection, ASI does not expect to resume significant purchases of Lubrajel for shipment to China until around August of this year. This reduction in purchases of that one product impacted not only our fourth quarter sales, but will impact our sales for the first half of 2016 as well.

In addition to the excess inventory situation in China, we have also seen increased competition in other geographic areas as well, particularly Europe, again due largely to the marketing of cheaper Chinese copies of our products. This increasingly competitive environment has been primarily the result of a willingness on the part of certain companies, such as the Korean company mentioned above, to sell their products at very low profit margins. While we believe that our product is superior in quality and performance to what is being made in China, it is sometimes difficult to convince customers of that, and clearly some customers have been willing to take a chance on substituting the Chinese copies for our product in order to save money.

We are acutely aware of this increasingly competitive situation and its impact on our sales in 2015, and are working closely with our marketing partners to provide information to customers pointing out the differences between our product and those of some of our competitors. We intend to do everything we can to recover some of the lost sales, including, when necessary on a case-by-case basis, reducing prices on some of our Lubrajel products to make them more competitive. This will be a joint effort by us and our marketing partners. We are also developing new Lubrajel products that we can market at a lower price, which we hope will enable us to recover some of the business we lost without having a big impact on our profit margins.

In addition to developing these new lower-cost forms of Lubrajel, we are also continuing our development work on other new and innovative products for the personal care market. The following are brief descriptions of some of the development projects:

LUBRAJEL NATURAL MARINE and CARAJEL: two new “natural” versions of Lubrajel using some components derived from marine sources. The formulations for these products have been finalized and we expect to begin marketing them shortly. The Lubrajel Natural Marine has already been certified as “natural” by Ecocert, and certification for Carajel is expected as well.

LUBRAJEL OIL NATURAL: a new natural form of our original Lubrajel Oil, with similar lubricating properties but based on all-natural components. Like the other Lubrajel Natural products, this product has been certified as “natural” by Ecocert. The formulation for this product is in the process of being finalized. We continue to believe that there is a growing demand for natural products, especially in the personal care market, and expect to add additional products to this line in the future if these initial products are successful.

LUBRAJEL TERRA: this will be another product in the Lubrajel Natural line. It will be based on polysaccharides from soil-grown raw materials. This product is in a very early stage of development.

GLYCERYL GLYCOLATE: an anti-aging skincare ingredient. We are still in the process of developing a marketable formulation for this product, and it is not yet known whether we will be successful in doing so. Work on this project should be completed by the end of the second quarter of this year, at which time we will be able to make a determination as to whether or not we should continue the project.

GUARDIAN ESTER C24P: a new product under development that is designed to be an alternative to silicone in creams and lotions. Very preliminary samples have been sent to our distributors for an initial evaluation to determine whether there is sufficient interest to proceed further.

AMLA COMPLEX: an extract of the Amla fruit (Indian Gooseberry), which is believed to have certain health benefits, including improved skin health and healthier hair. It is high in antioxidant content, such as vitamin C. This product is in the early R&D phase and samples are not yet available for evaluation.

As I mentioned previously, at the end of December we finally received approval by the FDA to market our new 30mL single-dose form of Renacidin, our proprietary urological drug product used to dissolve calcifications in indwelling catheters. This new product, which is dispensed using a newly-developed plastic bottle with a tip made to fit directly into a catheter, replaces our old 500mL glass bottle that has been on the market since 1991. We received our first shipment of the new product in March, just as our existing inventory of the old product was running out, and sales of the new product began in the beginning of April. We are very excited about finally being able to bring this more patient-friendly product to market, and are optimistic that the new single-dose unit will enable us to increase our revenue from this product in 2016.

The excess inventory situation in China that impacted our fourth quarter sales was certainly very disappointing to us, but we are hopeful that sales into China will resume shortly. We also believe that the new lower-cost products we are developing will enable us to remain competitive despite an increasingly competitive personal care product market. We are confident that, with the assistance of our marketing partners, we will be able to adapt to the changing marketplace and continue to expand the market for both current and future personal care products. That, along with the expected increase in sales of Renacidin, should give us another profitable year in 2016.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2015	2014
Net sales	$ **14,006,244**	$ 13,449,679
Costs and expenses:		
Cost of sales	**5,202,158**	5,317,707
Operating expenses	**1,862,290**	1,910,585
Research and development	**648,211**	730,412
Total costs and expenses	**7,712,659**	7,958,704
Income from operations	**6,293,585**	5,490,975
Other income:		
Investment income	**332,705**	239,592
Loss from sale of asset	**(879)**	---
Income from damage settlement	**---**	24,403
Total other income	**331,826**	263,995
Income from operations before income taxes	**6,625,411**	5,754,970
Provision for income taxes	**2,018,482**	1,704,554
Net income	$ **4,606,929**	$ 4,050,416
Earnings per common share (basic and diluted)	$ **1.00**	$ 0.88
Weighted average shares (basic and diluted)	**4,594,319**	4,596,439

STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31, 2015	2014
Net income	$ **4,606,929**	$ 4,050,416
Other comprehensive income (loss):		
Unrealized (loss) gain on marketable securities	**(284,103)**	191,533
Income tax benefit (expense)	**96,595**	(63,787)
Other comprehensive (loss) income, net of tax	**(187,508)**	127,746
Comprehensive income	$ **4,419,421**	$ 4,178,162

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31, 2015	2014
Current assets:		
Cash and cash equivalents	$ **1,080,489**	$ 2,023,383
Marketable securities	**10,719,470**	9,389,501
Accounts receivable, net of allowance for doubtful accounts of $8,654 in 2015 and $29,894 in 2014	**934,754**	1,593,260
Inventories (net)	**1,293,642**	1,237,154
Prepaid expenses and other current assets	**160,533**	165,691
Prepaid income taxes	**95,767**	30,643
Deferred income taxes	**233,305**	223,439
Total current assets	**14,517,960**	14,663,071
Property, plant, and equipment:		
Land	**69,000**	69,000
Factory equipment and fixtures	**4,175,940**	4,138,875
Building and improvements	**2,776,602**	2,773,002
Total property, plant and equipment	**7,021,542**	6,980,877
Less accumulated depreciation	**5,925,429**	5,772,974
Net property, plant, and equipment	**1,096,113**	1,207,903
Other assets:	**74,118**	68,042
Total assets	$ **15,688,191**	$ 15,939,016

See Notes to Financial Statements

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2015	December 31, 2014
Current liabilities:		
Accounts payable	$ **96,815**	$ 141,111
Accrued expenses	**785,623**	833,859
Dividends payable	**105,929**	---
Total current liabilities	**988,367**	974,970
Deferred income taxes	**118,010**	227,108
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.10 par value; 10,000,000 shares authorized; 4,594,319 and 4,596,439 shares issued and outstanding at December 31, 2015 and 2014, respectively	**459,432**	459,644
Accumulated other comprehensive income	**72,361**	259,869
Retained earnings	**14,017,637**	14,017,425
Total stockholders' equity	**14,581,814**	14,736,938
Total liabilities and stockholders' equity	$ **15,688,191**	$ 15,939,016

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 2015 and 2014

	Common stock		Accumulated other comprehensive income	Retained earnings	Total
	Shares	Amount			
Balance, January 1, 2014	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
Change in unrealized gains on marketable securities, net of deferred income tax benefit of $96,595			(187,508)		(187,508)
Net income				4,606,929	4,606,929
Shares surrendered	(2,120)	(212)		212	---
Reimbursement of overpaid prior year dividends				21,894	21,894
Dividends declared, not paid				(6,975)	(6,975)
Dividends declared and paid				(4,589,464)	(4,589,464)
Balance, December 31, 2015	**4,594,319**	**$ 459,432**	**$ 72,361**	**$ 14,050,021**	**$ 14,581,814**

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

	Years ended December 31, 2015	2014
Cash flows from operating activities:		
Net income	$ 4,606,929	$ 4,050,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	173,484	181,188
Realized (gain) loss on sales of marketable securities	(2,395)	25,127
Realized loss on sale of asset	879	---
(Decrease) increase in allowance for bad debts	(21,240)	12,325
Deferred income taxes	(22,369)	(254)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	679,746	185,162
Receivable from damage settlement	---	48,805
Inventories	(56,488)	373,593
Prepaid expenses and other current and non-current assets	(918)	(94,585)
Prepaid income taxes	(65,124)	(30,643)
Accounts payable	(44,296)	(244,588)
Accrued expenses and taxes payable	(48,236)	(25,794)
Net cash provided by operating activities	5,199,972	4,480,752
Cash flows from investing activities:		
Acquisitions of plant and equipment	(62,573)	(54,590)
Purchases of marketable securities	(5,556,065)	(3,437,478)
Proceeds from sales of marketable securities	3,944,388	3,077,588
Net cash used in investing activities	(1,674,250)	(414,480)
Cash flows from financing activities:		
Dividends received on unconverted shares	120,848	---
Dividends paid	(4,589,464)	(3,677,151)
Net cash used in financing activities	(4,468,616)	(3,677,151)
Net (decrease) increase in cash and cash equivalents	(942,894)	389,121
Cash and cash equivalents, beginning of year	2,023,383	1,634,262
Cash and cash equivalents, end of year	$ 1,080,489	$ 2,023,383

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

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

Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories Division, manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical lubricants, health care products, and specialty industrial products. It also conducts research and product development, primarily related to the development of new and unique cosmetic and personal care products. The Company's research and development department also modifies, refines, and expands the uses for existing products, with the goal of further developing the market for the Company's products. Two major product lines, LUBRAJEL® and RENACIDIN® IRRIGATION ("RENACIDIN") together accounted for 94.9% and 94.6% of revenue for the years ended December 31, 2015 and December 31, 2014, respectively. LUBRAJEL accounted for 85.3% and 85.9% of revenue for the years ended December 31, 2015 and December 31, 2014, respectively, and RENACIDIN accounted for 9.6% and 8.8% of revenue for the years ended December 31, 2015 and December 31, 2014, respectively.

Accounts Receivable and Reserves

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

Revenue Recognition

The Company recognizes revenue when products are shipped, title and risk of loss pass to customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. All products are shipped Ex Works ("EXW") 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.

During 2015 the Company had offered a discounted price to a significant customer of ASI in Canada for one of its LUBRAJEL products in exchange for a commitment to purchase a specific amount of product during the year. Since that customer did not attain the level of purchases required for that rebate, ASI is obligated to return to the Company the rebate that was given to that customer, in the amount of $88,360.

Cash and Cash Equivalents

For financial statement purposes, the Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less at inception. The Company deposits cash and cash equivalents with high credit quality financial institutions and believes that any amounts in excess of insurance limitations to be at minimal risk. Cash and cash equivalents held in these accounts are currently insured by the Federal Deposit Insurance Corporation up to a maximum of $250,000.

Dividends

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

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.

Supplemental Disclosures of Non-cash Investing and Financing Activities

Cash payments for income taxes were $2,125,000 and $1,867,089 for the years ended December 31, 2015 and 2014, respectively.

The Company has a number of unconverted shares of one of its previous corporate entities, Guardian Chemical Corporation ("Guardian"), that would convert to approximately 11,106 shares of United-Guardian, Inc. common stock if all of the remaining holders of those Guardian shares converted their Guardian stock to United-Guardian stock. Since the early 1990's, the Company has been paying accumulated dividends directly to those shareholders as those shares were converted, while at the same time its transfer agent was holding duplicate funds to cover those same payments (as well as future payments for Guardian shares that had not yet been converted). In September 2015 it was agreed that those duplicate funds would be returned to the Company, and the Company recorded a receivable from the transfer agent in the amount of $120,848. Of that amount, $21,894 was added to retained earnings to account for the amount that had been previously exchanged and paid, and the balance of $98,954 will continue to be accounted for as a potential liability in the event that one or more of the holders of that Guardian stock can be located and request conversion of their Guardian shares, in which case the accumulated dividends will be paid to them and the liability reduced accordingly. Payment of the amount owed to the Company by its transfer agent was received in October 2015. The Company is presently researching its options in regard to the distribution of the funds it is continuing to hold, in the event the remaining holders of Guardian stock cannot be located. The Company will continue to accumulate a dividend payable on the above shares as dividends are paid. The Company accrued an additional $6,975 dividend payable on the dividend paid December 15, 2015.

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

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, 2015 and 2014.

Other Assets

Other assets at December 31, 2015 consisted of $74,118 expended in connection with the development of a new dosage form and manufacturing process for RENACIDIN. 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, 2015, two of the Company's distributors and marketing partners accounted for 65.9% of the Company's revenues during the year, and 19.7% of its outstanding accounts receivable at year end. For the year ended December 31, 2014, two of the Company's distributors and marketing partners, one the same as in 2015, accounted for a total of 64.7% of the Company's revenues during the year, and 56.3% 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 89% and 84% of the raw material purchases by the Company in 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014 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 2012 through 2015. 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

Research and development expenses are expenditures incurred in connection with in-house research on new and existing products. It includes payroll and payroll related expenses, outside laboratory expenditures, lab supplies, and equipment depreciation.

Shipping and Handling Expenses

Shipping and handling costs are classified in operating expenses in the accompanying statements of income. Shipping and handling costs were approximately $94,000 and $86,000 for the years ended December 31, 2015 and 2014, respectively.

Advertising Expenses

Advertising expenses are expensed as incurred. During 2015 and 2014 the Company incurred approximately $18,000 and $20,000, respectively, in advertising expenses.

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

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-2, "Leases" (Topic 842), which is intended to improve financial reporting for lease transactions. This ASU will require organizations that lease assets, such as real estate and manufacturing equipment, to recognize on assets and liabilities on their balance sheet for the rights to use those assets for the lease term and obligations to make lease payments created by those leases that have terms of greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. This ASU will also require disclosures to help investors and other financial statement users better understand the amount and timing of cash flows arising from leases. These disclosures will include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. This ASU will be effective for public entities beginning the first quarter 2019. We do not believe that this ASU will have a material impact on our financial statements.

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

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers." This amendment defers the effective date of implementation to after December 15, 2017.

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

In April 2015, the FASB issued ASU 2015-05, "Intangibles-Goodwill and other Internal Use Software: Customer's Accounting for Fees paid in Cloud Computing Arrangement." This standard gives clarification as to whether or not a cloud computing arrangement includes the sale or license of software and how to properly account for it. If the arrangement includes a software license, then account for the agreement as an acquisition of software licenses. If not, then account for the arrangement as a service contract. The amendment is effective for annual periods beginning after December 15, 2015 and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted. The Company will adopt the amendment in January 2016. This amendment is not expected to have a material impact on the Company's results of operations.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This standard applies to any entity that uses the guidance of 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 August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern. Disclosure of Uncertainties about Entity's Ability to Continue as a Going Concern." Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. This amendment now provides guidance by providing a definition of substantial doubt, requires evaluation by management every reporting period for going concern issues, provides principles for considering any mitigating effects implemented by management, and the disclosures required for the assessment period of one year after issuance of the financial statements. This update becomes effective for interim and annual 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, 2015	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
Fixed income mutual funds	**$ 9,968,948**	**$ 9,900,587**	**$ (68,361)**
Equity and other mutual funds	**640,884**	**818,883**	**177,999**
	$ 10,609,832	**$ 10,719,470**	**$ 109,638**
December 31, 2014			
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
Total Investments	$ 8,995,760	$ 9,389,501	$ 393,741

Proceeds from the sale and redemption of marketable securities amounted to $3,944,388 and $3,077,588 for the years ended December 31, 2015 and 2014, respectively. Gains of $2,395 and losses of $25,127 were realized for the years ended December 31, 2015 and 2014, 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, 2015	December 31, 2014
Raw materials and work-in-process	**$ 379,156**	$ 395,092
Finished products	**914,486**	842,062
	$1,293,642	$ 1,237,154

Finished product inventories at December 31, 2015 and 2014 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, 2015	Years ended December 31, 2014
Current		
Federal	**$ 2,038,551**	$ 1,714,387
State	**2,300**	(9,579)
Total current provision for income taxes	**2,040,851**	1,704,808
Deferred		
Federal	**(22,369)**	(4,003)
State	**---**	3,749
Total deferred provision for income taxes	**(22,369)**	(254)
Total provision for income taxes	**$ 2,018,482**	$ 1,704,554

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			
	2015		2014	
	($)	**Tax rate**	($)	Tax rate
Income taxes at statutory federal income tax rate of 34%	**$ 2,253,000**	**34.0** %	$ 1,957,000	34.0 %
State income taxes, net of Federal benefit	**1,000**	**---**	(4,000)	(0.1)
Domestic Production Activities tax benefit	**(193,000)**	**(2.9)**	(168,000)	(2.9)
Nondeductible expenses	**1,000**	**---**	1,000	---
Prior year over-accrual	**---**	**---**	(56,000)	(1.0)
R&D credits	**(30,000)**	**(0.5)**	(25,000)	(0.4)
Other, misc.	**(14,000)**	**(0.2)**	---	---
Actual income tax expense	**$ 2,018,000**	**30.4** %	$ 1,705,000	29.6 %

During 2015 and 2014, 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,	
	2015	2014
Deferred tax assets		
Current		
Accounts receivable	$ **2,942**	$ 10,164
Inventories	**14,421**	14,037
Accrued expenses	**215,942**	199,238
Total deferred tax assets	**233,305**	223,439
Deferred tax liabilities		
Non-current		
Depreciation	**(80,733)**	(93,236)
Unrealized gain on marketable securities	**(37,277)**	(133,872)
Total deferred tax liabilities	**(118,010)**	(227,108)
Net deferred tax asset (liability)	$ **115,295**	$ (3,669)

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 $102,000 and $103,000 for each of the years ended December 31, 2015 and 2014, respectively. In 2015 and 2014 employees were able to defer up to $18,000 and $17,500 for each year respectively (plus $6,000 and $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. (The 2015 limits are the same for the year 2016, which are $18,000 (plus an additional $6,000 for employees over the age of 50)).

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 2015 and 2014 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 2015 and 2014 plan years. The 2015 contribution was paid in 2015, and the 2014 contribution was paid in 2014. 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

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

The Company operates in one business segment. The Company's products are separated into four distinct product categories: personal care products (including cosmetic ingredients), pharmaceuticals, medical products, and industrial products. Each product category is marketed differently. The cosmetic ingredient/personal care products are marketed through a global network of marketing partners and distributors. These marketing partners purchase product outright from the Company and market and re-sell those products to the end users. The Company does not make any sales on consignment.

No prior regulatory approval 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,	
	2015	2014
Personal Care	$ **9,922,130**	$ 9,421,041
Medical	**2,203,890**	2,494,205

Pharmaceutical	**1,864,155**	1,686,563
Industrial and other	**174,361**	169,486
	14,164,536	13,771,295
Less: Discounts and allowances	**(158,292)**	(321,616)
Net Sales	**$ 14,006,244**	$ 13,449,679

(b) Geographic Information

	Years ended December 31,			
	2015		2014	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	**$ 6,565,790**	**$ 1,096,113**	$ 4,723,779	$ 1,207,903
China	**4,193,631**	**---**	3,500,955	---
Canada	**60,117**	**---**	2,436,596	---
Other countries	**3,186,706**	**---**	2,788,349	---
	$ 14,006,244	**$ 1,096,113**	$ 13,449,679	$ 1,207,903

(c) Sales to Major Customers

	Years ended December 31,	
	2015	2014
Customer A	**$ 8,463,691**	$ 7,929,208
All other customers	**5,542,553**	5,520,471
	$ 14,006,244	$ 13,449,679

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, 2015**	December 31, 2014
Beginning balance - net of tax	**$ 259,869**	$ 132,123
Unrealized (loss)/gain on marketable securities before reclassifications - net of tax	**(189,903)**	152,873
Realized gain/(loss) on sale of securities reclassified from accumulated other comprehensive income	**2,395**	(25,127)
Ending balance - net of tax	**$ 72,361**	$ 259,869

NOTE H - INCOME FROM DAMAGE SETTLEMENT

In 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 reimbursed the company for its lost profits during the curtailment period. The final payment to the Company pursuant to that settlement agreement, in the amount $24,402, was made in the first quarter of 2014.

NOTE I - ACCRUED EXPENSES

Accrued expenses at December 31, 2015 and 2014 consist of:

	2015	2014
Bonuses	$ **250,000**	$ 225,000
Distribution fees	**206,977**	203,483
Payroll and related expenses	**109,451**	127,585
Annual report expenses	**66,000**	61,000
Audit fee	**82,000**	82,000
Sales rebates	**---**	96,000
Other	**71,195**	38,791
Total accrued expenses	$ **785,623**	$ 833,859

NOTE J - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2015 and 2014 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $13,000, and $17,000, 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, 2015 and 2014. 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 2015 and 2014 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, 2015 compared with the year ended December 31, 2014:

Net Sales

Net sales in 2015 increased by $556,565 (4.1%) compared with 2014. 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 $501,089 (5.3%) for the year ended December 31, 2015 when compared with 2014. The increase was attributable primarily to an increase in sales to ASI, the Company's largest marketing partner, of one of the Company's LUBRAJEL products for export to China. Sales to ASI in 2015 increased by $416,122 (5.2%) compared with 2014. Sales to three of the Company's marketing partners in Europe, decreased by $206,244 (19.9%) in 2015 compared with 2014, while sales to the Company's distributor in Korea increased by $258,840 (64.0%) in 2015 compared with 2014. The increase in sales of the Company's personal care products was augmented by a decrease of $189,980 in sales discounts as compared with 2014.

The increase in sales to ASI for export to China took place primarily in the first three quarters of 2015. As a result of both a regulatory issue in China unrelated to the Company's product but affecting the products in which the Company's product was being used, as well as an overstock situation in China resulting from ASI having brought into China more material than it needed for order fulfillment, there were no significant sales to ASI of product intended for China in the fourth quarter of 2015. Based on information provided to the Company by ASI, it is expected that sales of the Company's product into China is not expected to resume again until the third quarter of 2016, which will significantly impact the Company's sales to ASI in the first half of 2016.

Sales to the Company's other marketing partners in Europe declined as a result of the continuing economic problems in Europe, as well as the strong U.S. dollar relative to the Euro, which made the Company's products less competitive in Europe. There has also been more competition in the European marketplace than there had been in previous years due to other companies selling imitations of the Company's product at much lower prices, particularly a large Korean company that is manufacturing imitations of the Company's products in China. This has resulted in a loss of some customers to these competitive products.

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

During 2015 the Company had offered a discounted price to a significant customer of ASI in Canada for one of its LUBRAJEL products in exchange for a commitment to purchase a specific amount of product during the year. Since that customer did not attain the level of purchases on which that rebate was conditioned, ASI is obligated to return to the Company the rebate that was given to that customer, in the amount of $88,360.

(b) **Pharmaceuticals**:

Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN, together increased by $177,592 (10.5%) for the year ended December 31, 2015 compared with 2014, with RENACIDIN accounting for most of the increase. RENACIDIN accounted for 9.6% of the Company's sales in 2015, and 8.8% of sales in 2014. RENACIDIN had been off the market from late 2010 to May 2011, and then again from August 2012 until the end of October 2013, due to production and regulatory problems experienced by the Company's then sole supplier. RENACIDIN sales are still significantly lower than they were prior to those production curtailments, and the Company is continuing its efforts to try to recover some of the customers it lost as a result of those production curtailments and the consequent inventory shortage.

In 2013 the Company began working with a new exclusive supplier to produce RENACIDIN in a smaller, more user-friendly container. The new product is a sterile, single dose, 30 mL plastic bottle that was engineered to dispense the product directly into an indwelling catheter, eliminating the need to use a separate syringe to extract a small amount of product from the current 500mL bottle. The change to a new supplier and new packaging required a new submission to, and approval by, the United States Food and Drug Administration ("FDA"). The Company submitted its application to the FDA in August 2014 in the form of a supplement to its previous New Drug Application ("NDA") for RENACIDIN, and received final approval to market the new product in December 2015. Prior to the expiration of its previous supply agreement for the 500mL bottles the Company had purchased sufficient inventory to last until it received FDA approval for the new product. The Company expects to begin selling the new single-dose 30mL bottles in April 2016, around the same time that it will be selling off its remaining inventory of 500mL glass bottles. The Company is optimistic that this new, more user-friendly package will enable it to increase its sales of RENACIDIN over the next few years. The Company intends to actively market the new product beginning in April 2016.

The increase in sales of the Company's pharmaceutical products was partially offset by an increase of $26,656 in allowances for distribution fees, product returns, chargebacks paid to the U.S. Department of Veterans Affairs, and rebates paid for Medicaid- and Medicare-related sales.

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

Sales of the Company's medical products decreased by $290,315 (11.6%) in 2015 compared with 2014. 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 $4,875 (2.9%) in 2015 when compared with 2014.

Cost of Sales

Cost of sales as a percentage of net sales in 2015 decreased to 37.1% from 39.5% in the prior year. The decrease was the result of (a) an increase in sales of the Company's products in 2015 compared to 2014, which resulted in greater production efficiency due to the increased production volume, and (b) increases in the sales of some of the Company's higher margin products.

Operating Expenses

Operating expenses decreased by $48,295 (2.5%) in 2015 compared with the prior year. The decrease was mainly attributed to decreases in insurance, payroll, and payroll-related expenses.

Research and Development Expenses

Research and development expenses amounted to $648,211 and $730,412 for 2015 and 2014 respectively. The decrease of $82,201 (11.3%) was primarily related to a decrease in payroll and payroll-related expenses.

Other Income (Expense)

Other income (net) increased by $67,831 (25.7%) for the year ended December 31, 2015 when compared with 2014. The increase was mainly due to an increase in investment income from both stock and bond mutual funds, as well as realized gains from the sales of some of the Company's mutual funds. The increase was partially offset by the cessation of the RENACIDIN damage settlement payments. In 2014 the Company received its last payment of $24,402 from that settlement.

Provision for Income Taxes

The provision for income taxes increased by $313,928 (18.4%) in 2015 compared with 2014. This increase was mainly due to an increase in income from operations. The Company's effective income tax rate was approximately 30% in both 2015 and 2014, and is lower than the federal statutory rate of 34% primarily due to the additional tax deduction for domestic production activities as well as the utilization of research and development tax credits.

Liquidity and Capital Resources

Working capital decreased from $13,688,101 at December 31, 2014 to $13,529,593 at December 31, 2015, a decrease of $158,508 (1.2%). The current ratio decreased from 15.0 to 1 at December 31, 2014 to 14.7 to 1 at December 31, 2015. The decreases in working capital and the current ratio were mainly due to a decrease in accounts receivable.

Accounts receivable (net of allowance for doubtful accounts) as of December 31, 2015 decreased by $658,506 compared with 2014. The receivables turnover, or Days Sales Outstanding (DSO), for 2015 was 33 days, compared with 46 days in 2014. The decrease was mainly the result of lower accounts receivables in 2015 with higher sales for the year. The Company has bad debt reserves of $8,654 and $29,894 for 2015 and 2014, respectively, and believes that the net balance of its accounts receivable is fully collectable as of December 31, 2015.

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 $5,199,972 in 2015 compared with $4,480,752 in 2014. The increase in 2015 was primarily due to an increase in net income and a decrease in accounts receivable.

Net cash used in investing activities was $1,674,250 for the year ended December 31, 2015, compared with $414,480 for the year ended December 31, 2014. This increase was mainly due to an increase in purchases of marketable securities in 2015 compared with 2014.

Cash used in financing activities was $4,468,616 and $3,677,151 during the years ended December 31, 2015 and 2014, respectively. The increase was mainly due to higher dividends being paid out in 2015 than were paid in 2014.

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, 2014 to December 31, 2015. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		**Year Ended December 31, 2015**		Year Ended December 31, 2014	
		High	**Low**	High	Low
First	(1/1 - 3/31)	**$ 22.13**	**$ 18.20**	$ 29.25	$ 26.95
Second	(4/1 - 6/30)	**22.81**	**18.08**	34.43	26.66
Third	(7/1 - 9/30)	**20.00**	**18.00**	30.60	20.99
Fourth	(10/1 - 12/31)	**20.89**	**18.01**	22.89	19.00

Holders of Record

As of March 1, 2016, there were 832 holders of record of Common Stock.

Cash Dividends

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

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.

UNITED-GUARDIAN, INC.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of United-Guardian, Inc. (the "Company") as of December 31, 2015 and 2014, 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 its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2015 and 2014 and the results of their operations and cash flows for the years then ended in conformity with United States generally accepted accounting principles.

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

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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.

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