UNITED GUARDIAN INC
Form 10-K
March 26, 2015
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-10526

UNITED-GUARDIAN, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	11-1719724 (I.R.S. Employer Identification No.)
230 Marcus Blvd., Hauppauge, NY (Address of principal executive offices)	11788 (Zip Code)

Registrant's telephone number, including area code: (631) 273-0900

Securities registered pursuant to Section l2(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)Yes ¨ No þ

As of June 30, 2014, the last business day of the Registrant’s most recently completed second fiscal quarter, the aggregate market value of the Registrant's common stock held by non-affiliates (based on the closing sales price of such shares on The NASDAQ Global Market (“NASDAQ”) on such date) was approximately $74,690,668. (For the purpose of this report it has been assumed that all officers and directors of the Registrant, as well as all stockholders holding 10% or more of Registrant's stock, are affiliates of the Registrant).

As of March 1, 2015, the Registrant had issued and outstanding 4,596,439 shares of Common Stock, $.10 par value per share ("Common Stock").

DOCUMENTS INCORPORATED BY REFERENCE:

Certain information required by Part III (portions of Item 10, as well as Items 11, 12, and 13) is incorporated by reference to the Registrant's definitive proxy statement for the 2015 annual meeting of stockholders ("2015 Proxy Statement"), which, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is to be filed with the Securities and Exchange Commission (the “SEC”) no later than 120 days after Registrant's fiscal year end.

This Annual Report on Form 10-K contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a safe harbor for forward-looking statements by the Registrant about its expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters. The Registrant desires to take advantage of such "safe harbor" provisions and is including this statement for that express purpose. Words such as "anticipates", "believes", "expects", "intends", "future", and similar expressions identify forward-looking statements. Any such "forward-looking" statements in this report reflect the Registrant's views as of the date of filing of this report with the United States Securities and Exchange Commission (the “SEC”) with respect to future events and financial performance, and are subject to a variety of factors that could cause the Registrant's actual results or performance to differ materially from historical results or from the anticipated results or performance expressed or implied by such forward-looking statements. Because of such factors, there can be no assurance that the actual results or developments anticipated by the Registrant will be realized or, even if substantially realized, that they will have the anticipated results. The risks and uncertainties that may affect the Registrant's business include, but are not limited to: economic conditions, governmental regulations, technological advances, pricing and competition, acceptance by the marketplace of new products, retention of key personnel, the sufficiency of financial resources to sustain and expand the Registrant's operations, and other factors described in this report and in prior filings with the SEC. Readers should not place undue reliance on such forward-looking statements, which speak only as of the date hereof, and should be aware that except as may be otherwise legally required of the Registrant, the Registrant undertakes no obligation to publicly revise any such forward-looking statements to reflect events or circumstances that may arise after the date hereof.

PART I

Item 1. Business.

(a) Introduction

United-Guardian, Inc. ("United", the "Registrant", or the “Company”) is a Delaware corporation that, through its Guardian Laboratories Division ("Guardian"), 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.

United's predecessor, United International Research, Inc. ("UIR"), was founded and incorporated in New York in 1942 by Dr. Alfred R. Globus, United's Chairman and Director of Research until his death on April 9, 2009. On February 10, 1982, a merger took place between UIR and Guardian Chemical Corp. ("GCC"), an affiliate of UIR, whereby GCC was merged into UIR and the name was changed to United-Guardian, Inc., a New York corporation. On September 14, 1987, United-Guardian, Inc. (New York) was merged with and into a newly-formed Delaware corporation by the same name, United-Guardian, Inc., for the purpose of changing the domicile of the Company to Delaware.

The Company has a broad range of products, some of which are currently marketed, some of which are marketable but are not currently marketed by the Company, and some of which are still in the developmental stage. Of the products being actively marketed, the two largest product lines are the LUBRAJEL™ line of cosmetic ingredients and medical lubricants, which accounted for approximately 86% of the Company's sales in 2014, and RENACIDIN® IRRIGATION ("RENACIDIN"), a pharmaceutical product that accounted for approximately 9% of the Company's sales in 2014.

(b) Narrative Description of Business

The Company manufactures and markets cosmetic ingredients, personal and health care products, medical lubricants, pharmaceuticals, 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 endeavors to develop products that fill unmet market needs, have unique properties, and use proprietary technology that it sometimes protects with patents. Many of the Company's products are marketed through collaborative agreements with larger companies. The personal care products manufactured by the Company, including the cosmetic ingredients, are marketed to end users through the Company's worldwide network of marketing partners and distributors, and are currently used by many of the major manufacturers of cosmetic and personal care products. The Company sells product outright to its marketing partners, Free On Board ("FOB") the Company's plant in Hauppauge, New York, and those marketing partners in turn resell those products to their customers, who are typically the end users of the products. The products are not sold on a consignment basis, so unless a product is determined to be defective it is not returnable except at the discretion of the Company.

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 Company's personal care products, including cosmetic ingredients, are marketed globally by six marketing partners, of which Ashland Specialty Ingredients ("ASI"), a business segment of Ashland, Inc., is the largest. The products are sold directly to those marketing partners, which in turn resell those products to its customers for use in the manufacture or compounding of the customers' personal care and cosmetic products. The Company's non-pharmaceutical medical products (referred to hereinafter as "medical products") and the specialty industrial products are sold directly by the Company to the end users or to contract manufacturers utilized by the end users. The Company's pharmaceutical products are marketed by direct advertising, mailings, and trade exhibitions, and are sold to end users primarily through full-line drug wholesalers, which purchase the Company's products outright for resale to their customers. The Company also sells a small quantity of pharmaceutical products directly to hospitals and pharmacies. The Company's products are sold under trademarks or trade names owned by the Company, some of which are registered with the United States Patent and Trademark Office as well as comparable regulatory agencies in some foreign countries.

PRODUCTS

The Company operates in one business segment, and its product lines are separated into four distinct product categories:

PERSONAL CARE

LUBRAJEL™ is an extensive line of water-based moisturizing and lubricating gel formulations that are used as ingredients in personal care (primarily cosmetic/skincare) products. In the personal care industry, they are used primarily as moisturizers and as bases for other cosmetic ingredients, and can be found as an ingredient in skin creams, moisturizers, makeup, and body lotions. The largest-selling product in the LUBRAJEL personal care line in 2014 was LUBRAJEL OIL, followed by LUBRAJEL CG. Some of the other varieties of LUBRAJEL sold for cosmetic use (all using the LUBRAJEL name), in descending order of sales, are PF (including Norgel (see LUBRAJEL PF below)), MS, DV, and NP. In addition, many of these products are available in comparable formulations that do not contain parabens as the preservative, and instead use a different preservative system that is preferred by some customers. Those equivalent products are differentiated by adding the word "Free" after the name (for example, LUBRAJEL MS Free, DV Free, etc.), indicating that those formulations do not contain parabens.

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LUBRAJEL PF is different from the other products in the LUBRAJEL line in that it is a completely preservative-free form of LUBRAJEL. It is marketed under the LUBRAJEL PF tradename in all geographic markets other than France, where it is marketed under the tradename “Norgel” by Societe D'Etudes Dermatologiques ("Sederma"), a subsidiary of Croda International Plc (“Croda”). Sederma is the Company's exclusive marketing partner and distributor of the Company’s cosmetic ingredients in France and, along with its parent company, Croda, is a major supplier of specialty cosmetic ingredients to the personal care products industry. Tests have shown that this product self-preserves, and that it aids in the preservation of other cosmetic ingredients with which it is formulated.

LUBRAJEL NATURAL and LUBRAJEL NATURAL MARINE are two new natural forms of LUBRAJEL for cosmetic use. They are based on natural polysaccharides, which contribute moisturization, emulsion stabilization, and emolliency to personal care creams and lotions. LUBRAJEL NATURAL MARINE uses some components derived from marine sources. Both products are certified as natural by Ecocert, a leading industry certification organization for natural and organic products. The Company believes that there is a growing demand, especially in personal care products, for natural products. The Company expects to produce at least one additional formulation of these natural, water-based gels, which will be similar to the Company’s LUBRAJEL OIL product, but will contain all-natural components. This product will be marketed under the LUBRAJEL tradename as well. The Company hopes to begin to see sales of this product line in 2015.

Each of the following products accounted for less than 3% of the Company’s sales in 2014, listed in descending order of sales:

KLENSOFT™ is a surfactant (a surface active agent, such as a soap or detergent) that can be used in shampoos, shower gels, makeup removers, and other cosmetic formulations. KLENSOFT sales have been very variable due to the ordering patterns of the customers for the product. In 2014 sales of KLENSOFT increased by 87% over 2013, from $126,697 to $237,248. The Company expects the variability in sales of this product to continue.

LUBRAJEL II XD is a version of LUBRAJEL that was developed to be a direct replacement for one of the competitive products to LUBRAJEL.

UNITWIX™ is a cosmetic additive used as a thickener for oils and oil-based liquids. It is a proprietary, unpatented product. In 2011 the Company developed a new formula for UNITWIX that it now markets under the name UNITWIX II. It was developed as a result of the escalation in the cost, and limited availability, of the raw materials used in the manufacturing of UNITWIX, and was intended to be a direct replacement for the original UNITWIX. The new formula is less expensive to manufacture, and therefore can be marketed at a lower price. Some of the Company's customers for this product have already switched to the new formula. The Company is hopeful that this lower-cost formulation will bring in new customers for which the original product was not cost effective. However, even with the new formulation there are still issues regarding cost and availability of the raw materials needed to manufacture this product, so the Company does not expect to see significant future sales from this product line.

LUBRASIL™ is a special form of LUBRAJEL in which silicone oil is incorporated into a LUBRAJEL base by micro-emulsification, thereby maintaining clarity similar to the other LUBRAJEL products. The product has a silky feel, and is water resistant while moisturizing the skin. In addition to the original LUBRASIL formulation, the Company added an additional LUBRASIL formulation marketed under the tradename, LUBRASIL SB, which has a higher level of silicone than the original LUBRASIL, and is intended to be an addition to, not a replacement for, the original LUBRASIL.

ORCHID COMPLEX™ is a successor product to the Company's previous OIL OF ORCHIDS product, and is a base for skin creams, lotions, cleansers, and other cosmetics. It is an extract of fresh orchids modified by stabilizers and preservatives, and is characterized by its excellent lubricity, spreadability, light feel, and emolliency. Because of its alcohol solubility, it may also be used in fragrance products such as perfumes and toiletries. Its emolliency makes it an excellent additive to shampoos, bath products and facial cleansers. It is also a superior emollient for sunscreens, vitamin creams, toners and skin serums. It is sold in two forms, water-soluble and oil-soluble.

LUBRASLIDE™ and a related product, B-122™, are powdered lubricants used in the manufacture of cosmetics such as pressed powders, eyeliners, and rouges. They are used as binders for these products, increasing water-repellency and drop strength and lowering the coefficient of friction.

The Company believes that its ability to increase sales of its cosmetic and other personal care products will depend on (a) the ability and determination of its marketing partners, especially its largest marketing partner, ASI, to continue to aggressively promote the Company’s products, particularly to new customers; (b) the Company's success in developing new forms of LUBRAJEL that expand its uses to new applications; and (c) the ability of the Company to continue to develop additional new products to expand its line of personal care products. The Company is continuing to develop new varieties of LUBRAJEL to extend that line even further, and is working with its marketing partners to find new marketing opportunities, including products previously developed by the Company that are not being actively marketed at the present time, but for which there may be new marketing opportunities.

The Company believes that there is still significant potential to expand the sales of its LUBRAJEL line of products through product modifications, additional claim substantiation, and geographic expansion, especially in such developing markets as mainland China, India, and Eastern Europe.

Any future increases in sales of the LUBRAJEL line of products may be negatively impacted by sales of competitive products, including new products being produced in China. However, the Company believes that because of the strong brand identity, the cost to the end user of reformulation, the Company’s long history of supplying quality products, the extensive line of LUBRAJEL formulations, and the Company’s continuing product development programs, it will continue to be able to compete effectively in the marketplace and expand the market for its LUBRAJEL product line (see “Competition” below).

MEDICAL

LUBRAJEL RR and RC are both gels used primarily as lubricants for urinary catheters. Both are special grades of LUBRAJEL that can withstand sterilization by gamma radiation, which is one of the methods of terminally sterilizing medical and hospital products. LUBRAJEL RR was the original radiation-resistant LUBRAJEL product. LUBRAJEL RC was developed specifically for one customer that packages the product in unit doses as a catheter lubricant for many manufacturers. Combined sales of these two products in 2014 increased by 5.9% compared with 2013, with LUBRAJEL RC accounting for the largest portion of that increase. The combined sales of both products accounted for approximately 12.7% of the Company’s sales in 2014. Sales of both of these products are subject to year-to-year variations based on the ordering patterns of the customers for these two products.

LUBRAJEL LC was developed for a specific customer who required a product suitable for oral use, to be used in a line of mouth moisturizers that it markets. The inclusion of LUBRAJEL LC in that customer’s product line was discontinued in 2013. As a result, sales decreased by approximately 92% in 2014 compared with 2013. However, another customer began purchasing LUBRAJEL LC in the fourth quarter of 2014, so it is possible that the Company will be able to recover some of the sales that it lost.

LUBRAJEL MG is the original form of LUBRAJEL, developed as a medical lubricant in the 1970s. It is used by many medical device manufacturers for lubricating urinary catheters, pre-lubricated enema tips, and other medical devices. Sales decreased by 12% in 2014 compared with 2013, which the Company believes was the result of fluctuations in the buying patterns of customers for this product. Sales of this product represented 4.7% of the Company's sales in both 2014 and in 2013 because overall Company sales in 2014 declined by about the same percentage as the sales decline in this product.

LUBRAJEL FLUID is a very low viscosity form of LUBRAJEL that was developed to provide superior lubrication in water-soluble products. It was specifically developed, and is currently being used, as a replacement for silicone oils in pre-lubricated condoms. Sales have decreased in each of the past two years due to a lessening of the concerns about the use of silicone-based products.

LUBRAJEL BA is a new LUBRAJEL formulation that was specifically developed for ASI and is intended for oral care uses. ASI actively promoted this product during 2013, and the Company received its first orders for this product from ASI in February 2014. Sales of this product are not yet a significant contributor to the Company's revenue, and it is too early to project whether or not it will become a significant product for the Company.

LUBRAJEL TF is a medical lubricant specifically developed for a global medical products company. Initial sales of this product began at the end of 2012. Although the Company is still hopeful that sales of this product will increase, sales of this product to date have been very low. The Company has not been made privy to the customer's marketing plans for this product, so it is impossible to predict future sales to this customer at the present time.

Sales of all of the medical grades of LUBRAJEL decreased by 16.2% in 2014 compared with 2013. Sales of these products accounted for 18.2% of the Company's sales in 2014 compared with approximately 19.0% in 2013, due to lower total Company sales in 2014. Approximately 83% of the decrease in sales in 2014 was the result of the loss of sales of Lubrajel LC in 2014 (as discussed above), with the remainder of the decrease caused by fluctuations in the purchasing patterns of its customers.

PHARMACEUTICAL

RENACIDIN® is a prescription drug product that is used primarily to prevent and to dissolve calcifications in urethral catheters and the urinary bladder. It is marketed as a ready-to-use sterile solution. It currently has regulatory approval only in the United States. Prior to 2010, RENACIDIN typically accounted for between16% and 20% of the Company's annual sales. This product has been manufactured for the Company under a long-term contract with a major U.S. drug company. Since November 2010, that supplier has experienced production issues at the facility that manufactures RENACIDIN. Those production issues were unrelated to the RENACIDIN product itself, but nevertheless resulted in two production curtailments, the second of which occurred in May 2012. Since the Company did not receive any shipments of RENACIDIN in the first ten months of 2013, and was only able to resume sales in late October 2013, RENACIDIN sales in 2013 were only $451,565. The Company had product to sell during all of 2014, and as a result, sales of RENACIDIN increased to $1,182,402, which was still significantly below the Company's typical yearly sales revenue from RENACIDIN prior to the production curtailments.

To reimburse the Company for profits it lost as a result of the most recent production curtailment, the Company and its supplier entered into a settlement agreement whereby the supplier paid the Company $518,050 for the profits it lost in 2012, and continued to pay the Company $97,610 per month for each month during 2013 that the product was not available. Once production resumed, the agreement provided that the Company was to be paid $48,805 for each of the first two months after the resumption of shipments, and a final payment of $24,403 for the third month. The total amount of the reimbursement in 2014 was $24,403, compared with $1,070,561 that it received as result of this settlement agreement in 2013.

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The Company's supply contract with its current RENACIDIN supplier was scheduled to expire in January 2014, but the Company and its supplier reached an agreement to extend the supply agreement into the first quarter of 2015. Separately, the Company has already located a replacement supplier, which will be supplying the product in a new 30 mL single-dose plastic bottle. Currently the product is available only in a 500 mL glass bottle, which is difficult for the patient or care-giver to use. The Company expects that this new single-dose unit will result in wider acceptance and use of the product, and has the potential to significantly increase RENACIDIN sales. The change to the new supplier required a new submission to, and approval by, the U.S. 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 NDA for RENACIDIN, and is hoping to receive approval by the end of the first quarter of 2015. Until then, the Company plans to continue selling the current form of the product, and will bring in sufficient inventory to last until the new supplier is approved and the Company can begin to sell the new single-dose unit. The Company expects to be selling both package sizes until the supply of the 500 mL bottle is exhausted.

CLORPACTIN® WCS-90 is an antimicrobial product used primarily in urology to treat infections in the urinary bladder. It is also used in surgery for treating a wide range of localized infections in the peritoneum (the lining of the abdominal cavity), as well as the eye, ear, nose and throat, and sinuses. The product is a powder that is mixed with water by the end user and used as a solution. It is also a powerful disinfectant, fungicide, and deodorizer. Sales of CLORPACTIN have been very consistent from year-to-year, although in 2014 sales increased by 8.5% and represented approximately 4% of the Company's sales.

The Company's pharmaceutical products are returnable only at the discretion of the Company unless (a) they are found to be defective, or (b) they are outdated (but not more than one year after their expiration date, a return policy that conforms to standard pharmaceutical industry practice).

INDUSTRIAL

DESELEX™ Liquid is a sequestering and chelating agent that is used primarily as a replacement for phosphates in the manufacture of detergents. It also has some use in personal care products as a chelating agent in shampoos and body washes.

THOROCLENS is a chlorine-based cleanser manufactured and packaged by the Company for a small company in New England who resells the product to its customers. Sales of this product increased by 15.0% in 2014.

DEVELOPMENT ACTIVITIES

The Company's research and development department has developed, in coordination with, and with input from, its marketing partners, a large number of products that can be used in many different industries, including the personal care (including cosmetic), pharmaceutical, medical, health care, and specialty chemical industries. These products are in various stages of development, some currently marketable and some in the very early stages of development requiring a substantial amount of development work to bring them to market. Research is also being done on new uses for currently marketed products.

Prior to initiating research and development work on a product, market research is done to determine the marketability of the product, including the potential market size and the most effective method of marketing the product. After that, the research and development department will determine whether the product can be successfully developed, including (a) laboratory refinements and adjustments to suit the intended uses of the product; (b) stability studies to determine the effective shelf life of the product and suitable storage and transportation conditions; and (c) laboratory efficacy tests to determine the effectiveness of the product under different conditions. If development proves feasible, the Company will then determine whether production and sales costs make it feasible to bring the product to market.

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If the initial development work is successful and the estimated costs of further development are acceptable to the Company, further development work to bring the product to market will continue, including scaling up from laboratory production batches to pilot batches to full-scale production batches. In the case of drug products or medical devices, significant additional work would have to be done, including studies to determine safety and effectiveness, preparation of an Investigational New Drug (IND) application, and finally the filing of a New Drug Application (NDA). The Company does not currently have plans to develop any new drugs or medical devices.

While there can be no assurance that any particular project will result in a new marketable product or a commercially successful product, the Company believes that a number of its development projects, including those discussed below, may have commercial potential if the Company's development efforts are successful.

The Company's major research focus is on the development of new and unique ingredients for cosmetic and other personal care products. The following are some of the projects that the Company is either working on or intends to work on in the near future:

LUBRAJEL OIL NATURAL: This is intended to be the third product in the LUBRAJEL NATURAL line. It will be a new natural form of LUBRAJEL OIL that has similar lubricating properties to that of the Company’s regular LUBRAJEL OIL, but will utilize all-natural components. The polymer network in this product is based on fermented vegetable feed stock. Since development work on this product has not yet been completed, the Company has not yet applied for Ecocert certification for this product, but the Company believes that this product will be eligible for Ecocert certification, and plans to apply for it as soon as the formulation is finalized. The Company hopes to begin sampling this product to its marketing partners in the second quarter of 2015.

CONDOM LUBRICANT: In February 2014, the Company signed a product development agreement with an Australian company interested in having the Company develop a new water-based condom lubricant into which the Australian company’s patented anti-viral agent can be incorporated. The Company has completed the Phase I work, and is currently in discussions with the customer to continue on to Phase II, with the goal of supplying the product to the customer if the development work is successful.

It should be emphasized that some of the projects listed above are in the very early stages of research and development, and there can be no guarantee that any particular development project will result in a marketable product or in significant sales if it is marketed.

The Company’s research and development costs in 2014 were approximately $730,000, as compared with approximately $717,000 in 2013. It expects its research and development costs in 2015 to be comparable to those of 2014. Any additional increase in development and/or production costs will depend on whether capital investments are required in order to continue development work on, or to manufacture, any of the new products under development.

The Company requires all employees and consultants who may receive confidential and proprietary information to agree in writing to keep such information confidential.

TRADEMARKS AND PATENTS

The Company strongly believes in protecting its intellectual property and intends, whenever reasonably possible and economically practical, to obtain patents in connection with its product development program. The Company currently holds a number of United States patents and trademarks relating to its products, and regularly has patent and/or trademark applications pending with respect to a number of its research and development products. Some patents previously issued to the Company on certain products have expired. There can be no assurance that any patents held by the Company will be valid or otherwise of value to the Company, or that any patent applied for will be granted. However, the Company believes that its proprietary manufacturing techniques and procedures with respect to certain products offer it some protection from duplication by competitors regardless of the patent status of the products. While in recent years the Company has relied more on trade secrets, proprietary formulations, and manufacturing methods than patents to protect its intellectual property, it intends to continue to file patent applications in situations where it believes that relying on trade secrets would be insufficient protection.

The various trademarks and trade names owned or used by the Company in its business are of varying importance to the Company. The most significant trademarks are LUBRAJEL™ and RENACIDIN®.

Set forth below is a table listing certain information with respect to all unexpired U.S. patents held by the Company.

PATENT NAME	PATENT #	FILING DATE	ISSUE DATE	EXPIRATION DATE
Delivery system for oil-soluble actives in cosmetic and personal care products	6,117,419	9/1996	9/2000	12/2016
Microemulsion of silicone in a water-based gel that forms a clear, transparent, highly stable moisturizer and lubricant for cosmetic and medical use	6,348,199	1/1994	2/2002	2/2019

There was one Company patent that expired in December 2013. It was patent #5,405,622, for a radiation-resistant lubricating gel. The Company is not aware of any impact on sales of any products that were based on that patent due to competitive products using that patent technology coming on to the market.

DOMESTIC SALES

In the United States the Company's cosmetic ingredient products are marketed and distributed exclusively by ASI in accordance with a marketing agreement entered into in 1996 with International Specialty Products (“ISP”), the predecessor company of ASI. That agreement was amended and expanded in 2000, 2002, 2005, and 2010 (see "Marketing Agreements" below). ASI also has certain non-exclusive rights to sell some of the Company's other industrial and medical products. It was also granted the exclusive right to market a new oral care product, LUBRAJEL BA, which was specifically developed for it in 2012. The Company received its first order for that product in February 2014.

The Company's domestic sales of pharmaceutical products are handled primarily through the major full-line drug wholesalers and accounted for approximately 12.5% of the Company's sales in 2014, and 6.0% in 2013. The Company's other products, such as its medical and specialty industrial products, are sold directly to customers or their contract manufacturers, who incorporate these products into their finished products.

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FOREIGN SALES

In 2014, approximately 65% of the Company’s sales were to customers in foreign countries, compared with approximately 70% in 2013. These foreign sales consisted primarily of sales of its cosmetic ingredients to customers in Canada, Europe and Asia. In Asia the growth in sales has come almost exclusively from sales into China. The Company currently has six distributors for its personal care products outside the United States, with ASI being the largest. The Company has a written marketing agreement only with ASI; all other marketing arrangements are subject to cancellation at any time by either the Company or the distributor. The marketing agreement with ASI gives it exclusive foreign marketing rights with the exception of the following territories, where the Company's other marketing partners have exclusive marketing rights: the United Kingdom (by The Azelis Group); France (by Sederma SAS, a subsidiary of Croda International Plc.); Italy (by Luigi & Felice Castelli S.R.L.); Switzerland (by Azelis Cosmetics GmbH.); and South Korea (by C&M International). The Company also has significant direct sales to a company in Ireland for one of the Company’s LUBRAJEL products for a medical use.

Since the company’s sales are all in U.S. Dollars, the company does not have any issues with fluctuations in foreign currency exchange rates.

MARKETING

The Company markets its products through marketing partners and distributors, advertising in medical and trade journals, mailings to physicians and to the trade, and exhibitions at medical meetings. The pharmaceutical products are sold in the United States primarily to drug wholesalers, which in turn distribute and resell those products to drug stores, hospitals, physicians, long-term care facilities, the U.S. Department of Veterans Affairs, and other government agencies. The proprietary cosmetic ingredients and other personal care products are sold outright (not on consignment) to the Company’s marketing partners, which in turn market and resell the products to cosmetic and other personal care manufacturers for use in the manufacture or compounding of their products. The medical and specialty industrial products are sold by the Company directly to the end users. The industrial products are older products that have limited marketability but are still being sold to some long-time customers. They are not actively marketed, but are available for sale to any new customers.

MARKETING AGREEMENTS

In 1994, the Company entered into a marketing agreement with ISP, the predecessor of ASI, whereby it would market and distribute the Company's personal care products, as well as some medical and specialty industrial products, in certain parts of Europe, Asia, Australia, and Africa. ISP manufactured and marketed globally (and continues to do so as ASI) an extensive line of personal care and pharmaceutical additives and various other industrial products. In 1996, the parties entered into another agreement, extending ISP’s distribution rights to the United States, Canada, Mexico, and Central and South America. In July 2000, the parties entered into an Exclusive Marketing Agreement (the "2000 Agreement"), which modified, extended, and consolidated the 1994 and 1996 agreements. In December 2002, December 2005, and May 2010 the parties entered into letter agreements that further modified and extended the 2000 Agreement until December 31, 2011. The May 2010 agreement also provided for automatic two-year renewals after December 31, 2011 unless either party terminated the arrangement upon 60 days’ notice. Since neither party provided notice to the other with respect to termination of the contract as of December 31, 2013, the agreement between the Company and ISP (now ASI) was automatically extended until December 31, 2015.

The Company believes that in the event ASI were to cease marketing the Company's products alternative arrangements could be made with one of the other global marketers of personal care products to continue to supply products to customers currently using the Company's products, without any significant interruption of sales.

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The Company has other marketing arrangements with marketing partners in the U.K., France, Switzerland, South Korea, and Italy (see “Foreign Sales’” above), but all of these other arrangements are operating under either verbal agreements or expired written agreements, and are subject to termination at any time by either party.

RAW MATERIALS

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 together accounted for approximately 84% of the raw material purchases by the Company in 2014, and 67% in 2013. The names of the suppliers and the specific raw materials are considered by the Company to be confidential and proprietary.

INVENTORIES, RETURNS, and ALLOWANCES

The Company's business requires that it maintain moderate inventories of certain of its finished goods. Historically, sufficient inventory levels, returns and allowances have not been a significant factor in the Company's business. However, between November 2010 and May 2011, and again from May 2012 until October 31, 2013, the Company exhausted its inventory of RENACIDIN and was not able to fill all of its orders for RENACIDIN due to vendor supply problems (see Part I, Item 1(b) above).

BACKLOG

The Company currently does not have any significant backlog of orders.

SEASONALITY

Due to the nature of the Company's business and the types of products it markets it is not subject to any significant seasonal fluctuations in sales.

CUSTOMERS

The Company’s personal care/cosmetic ingredients are marketed and sold globally by six marketing partners. Those marketing partners in turn market and distribute those products to hundreds of end users world-wide. Although the Company depends on those marketing partners for the marketing and distribution of its personal care products, it is confident that if any of its marketing partners were to decide not to sell the Company’s products, or if the Company chose to replace one or more of those marketing partners, it would be able to put in place new marketing agreements to service its customers in any of the geographic areas affected. If necessary, the Company would also be able to sell directly to the end users of its products until such time as a new marketing partner is put in place.

The Company’s pharmaceutical products are sold to, and distributed by, full-line drug wholesalers throughout the United States. It’s medical and specialty industrial products are sold directly by the Company to the end users of those products or, in some cases, to contract manufacturers used by some of those end users.

COMPETITION

The Company has many products or processes that are either proprietary or have some unique characteristics, and therefore the Company believes it has been able, and will continue to be able, to compete effectively with other pharmaceutical, personal care, specialty chemical, or health care companies as to products deemed competitive with those of the Company. The pharmaceutical, health care, and cosmetic industries are all highly competitive, and the Company expects competition to intensify as advances in the field are made and become widely known. There are other domestic and foreign companies that are engaged in the same or similar areas of research as those in which the Company is engaged, some of which have substantially greater financial, research, manpower, marketing and distribution resources than the Company. In addition, there are many large, integrated and established pharmaceutical, specialty chemical, personal care and health care companies that have greater capacity than the Company to develop and to commercialize types of products upon which the Company's research and development programs are based. However, the Company believes that the expense of testing and evaluating possible substitutes for the Company's products that are already in customers' formulations, as well as the expense to the customer in relabeling its products, is a significant barrier to displacing the Company's products in current customer formulations. These cost factors make it less likely that a customer would choose a competitive product, unless there was a significant cost savings in doing so. The Company believes that manufacturing, regulatory, distribution and marketing expertise will be increasingly important competitive factors in favor of the Company. In this regard, the Company believes that its marketing arrangements with its global marketing partners will be important in the commercialization of many of the products it is currently developing.

ISO 9001:2008 REGISTRATION

In October 2009 the Company was certified by Underwriters Laboratories, Inc. to be in compliance with the current ISO 9001:2008 standard, indicating that the Company's documented procedures and overall operations had attained the high level of quality needed to comply with this ISO certification level. Prior to that, since December 2003 the Company had been registered under the previous ISO 9001:2000 standard, also by Underwriters Laboratories, Inc. The Company had first earned ISO registration in November 1998, when it earned ISO 9002 registration, and has been in continuous compliance with each of these standards from the time of its approval under each standard.

GOVERNMENT REGULATION

Regulation by governmental authorities in the United States and other countries is a significant factor in the manufacturing and marketing of many of the Company's products. The Company and many of the Company's products are subject to certain government regulations. Products that may be developed and sold by the Company in the United States may require approval from federal regulatory agencies, such as the FDA, as well as state regulatory agencies. Products that may be developed and sold by the Company outside the United States may require approval from foreign regulatory agencies. Any medical device products developed by the Company will be subject to FDA regulation, and will usually require a 510(k) pre-market notification to the FDA to demonstrate that the device is at least as safe and effective as a legally marketed device. The Company would then need to receive clearance from the FDA prior to marketing the device. Most new pharmaceutical products will require clinical evaluation under an Investigational New Drug Application prior to submission of a New Drug Application for approval of a new drug product.

The Company is required to comply with all pertinent current Good Manufacturing Practices of the FDA for medical devices and drugs. Accordingly, the regulations to which the Company and certain of its products may be subject, and any changes with respect thereto, may materially affect the Company's ability to produce and market new products developed by the Company.

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The Company's present and future activities are, and will likely continue to be, subject to varying degrees of additional regulation under the Occupational Safety and Health Act, Environmental Protection Act, import, export and customs regulations, and other present and possible future foreign, federal, state and local regulations.

Portions of the Company's operating expenses are directly attributable to complying with federal, state, and local environmental statutes and regulations. In 2014 and 2013 the Company incurred $42,000 and $33,000, respectively, in federal, state, and local environmental law compliance costs. There was no material financial or other impact on the Company as a result of compliance with environmental laws.

EMPLOYEES

The Company presently has 36 employees, 4 of whom serve in an executive capacity, 19 in research, quality control and manufacturing, 7 in maintenance and construction, and 6 in office and administrative support services. Of the total number of employees, 32 work full time.

Item 1A. Risk Factors.

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

Item 1B. Unresolved Staff Comments.

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

Item 2. Properties.

The Company maintains its principal office and factory, and conducts its research, at a 50,000 square foot facility on a 2.7 acre parcel at 230 Marcus Boulevard, Hauppauge, New York 11788, which the Company owns. Of the 50,000 square feet, approximately 30,000 square feet is manufacturing space, 15,000 square feet is warehouse space, and 5,000 square feet is office and laboratory space. The Company has fully developed the 2.7 acres, and fully utilizes the building occupying the land. The Company believes that the aforementioned property is adequate for its immediately foreseeable needs. The property is presently unencumbered and, in the Company’s opinion, is adequately insured.

Item 3. Legal Proceedings.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. 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.

Item 6. Selected Financial Data.

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

Item 7. 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.

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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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

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

Item 8.Financial Statements and Supplementary Data.

Annexed hereto starting on page F-1.

Item 9.Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Principal Executive Officer and Principal Financial Officer, has evaluated the design, operation, and effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of December 31, 2014. On the basis of that evaluation, management concluded that the Company's disclosure controls and procedures are designed to be, and are, effective at providing reasonable assurance that the information required to be disclosed in reports filed or submitted pursuant to the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management, including its Principal Executive Officer and Principal Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control system is designed to provide reasonable assurance to management and to the Company's Board of Directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of management, including the Company's Principal Executive Officer and Principal Financial Officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's evaluation under the framework in Internal Control—Integrated Framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014. At the present time the Company is still utilizing the COSCO 2009 regulations until it converts to COSCO 2013.

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This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Since the Company is a non-accelerated filer, management's report is not subject to attestation by the Company's registered public accounting firm pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002. As a result, this Annual Report contains only management's report on internal controls.

(c) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred in the fourth quarter of 2014 that materially affected, or would be reasonably likely to materially affect, the Company's internal control over financial reporting.

(d) Limitations of the Effectiveness of Internal Controls

The effectiveness of the Company's system of disclosure controls and procedures and internal control over financial reporting is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the control system, the assumptions used in identifying the likelihood of future events, and the inability to eliminate fraud and misconduct completely. As a result, there can be no assurance that the Company's disclosure controls and procedures and internal control over financial reporting will detect all errors or fraud. However, the Company's control systems have been designed to provide reasonable assurance of achieving their objectives, and the Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures and internal control over financial reporting are effective at the reasonable assurance level.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to the section entitled "Directors and Executive Officers" to be contained in the Company's 2015 Proxy Statement.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all officers, directors, and employees serving in any capacity to the Company, including the Chief Executive Officer and/or President, Chief Financial Officer, and Principal Accounting Officer. A copy of the Company's Code of Business Conduct and Ethics is available on the Company's web site at http://www.u-g.com/corporate. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of its Code of Business Conduct and Ethics applicable to the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer by posting this information on the Company's web site.

Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference to the section entitled "Compensation of Directors and Executive Officers" to be contained in the Company's 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the section entitled "Voting Securities and Principal Stockholders" to be contained in the Company's 2015 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the section entitled “Directors and Executive Officers" to be contained in the Company's 2015 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Audit Fees

The aggregate fees that have been, or are expected to be, billed by Baker Tilly Virchow Krause, LLP (“Baker Tilly”), the Company’s principal accountants, to the Company for the quarterly reviews and year-end audit of the Company's financial statements for 2014 and 2013, were approximately $83,000 for each of those fiscal years ($7,000 for each of the first three fiscal quarters and $61,000 for the year-end audit). In addition, Baker Tilly was reimbursed up to $1,000 for out-of-pocket expenses each fiscal year.

Audit-Related Fees

During 2014 and 2013 there were no fees paid to Baker Tilly in connection with the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

No other fees were billed by Baker Tilly for the last two fiscal years that were reasonably related to the performance of the audit or review of the Company's financial statements and not reported under "Audit Fees" above.

Tax Fees

There were no fees billed by Baker Tilly during the last two fiscal years for professional services rendered for tax compliance, tax advice, or tax planning. Accordingly, none of such services were approved pursuant to pre-approval procedures or permitted waivers thereof.

All Other Fees

There were no other non-audit-related fees billed to the Company by Baker Tilly in 2014 or 2013.

Pre-Approval Policies and Procedures

Engagement of accounting services by the Company is not made pursuant to any pre-approval policies and procedures. Rather, the Company believes that its accounting firm is independent because all of its engagements by the Company are approved by the Company's Audit Committee prior to any such engagement.

The Audit Committee of the Company's Board of Directors meets periodically to review and approve the scope of the services to be provided to the Company by its Independent Registered Public Accounting Firm, as well as to review and discuss any issues that may arise during an engagement. The Audit Committee is responsible for the prior approval of every engagement of the Company's Independent Registered Public Accounting Firm to perform audit and permissible non-audit services for the Company, such as quarterly financial reviews, tax matters, and consultation on new accounting and disclosure standards.

Before the auditors are engaged to provide those services, the Chief Financial Officer and Controller will make a recommendation to the Audit Committee regarding each of the services to be performed, including the fees to be charged for such services. At the request of the Audit Committee, the Independent Registered Public Accounting Firm and/or management shall periodically report to the Audit Committee regarding the extent of services being provided by the Independent Registered Public Accounting Firm, and the fees for the services performed to date.

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this report.

(i) Financial Statements - see Item 8. Financial Statements and Supplementary Data.

(ii) Financial Statement Schedules – None.

(Financial statement schedules have been omitted either because they are not applicable, not required, or the information required to be set forth therein is included in the financial statements or notes thereto.)

(iii) Report of Independent Registered Public Accounting Firm.

(iv) Notes to Financial Statements.

(b) Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of this Annual Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED-GUARDIAN, INC.

By: /s/ Kenneth H. Globus
Kenneth H. Globus
President and Director

Date: March 20, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature		Title	Date
By:	/s/ Kenneth H. Globus Kenneth H. Globus	President, General Counsel, Chairman of the Board of Directors (Principal Executive Officer)	March 20, 2015
By:	/s/ Robert S. Rubinger Robert S. Rubinger	Executive Vice President, Secretary, Chief Financial Officer, Director (Principal Financial Officer and Principal Accounting Officer)	March 20, 2015
By:	/s/ Lawrence F. Maietta Lawrence F. Maietta	Director	March 20, 2015
By:	/s/ Arthur M. Dresner Arthur M. Dresner	Director	March 20, 2015
By:	/s/ Andrew A. Boccone Andrew A. Boccone	Director	March 20, 2015
By:	/s/ Christopher W. Nolan, Sr. Christopher W. Nolan, Sr.	Director	March 20, 2015

EXHIBIT INDEX

Exhibit #	Description
2	Certificate of Merger of United-Guardian, Inc. (New York) with and into United-Guardian, Inc. (Delaware) as filed with the Secretary of State of the State of Delaware on September 10, 1987. Incorporated by reference to Exhibit 3(b) of the Registrant's Annual Report on Form 10-K for the fiscal year ended February 29, 1988 (the "1988 10-K").
3(a)	Certificate of Incorporation of the Company as filed April 22, 1987. Incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, dated September 21, 1987 (the "1987 8-K").
3(b)	By-laws of the Company. Incorporated by reference to Exhibit 4.2 to the 1987 8-K.
4(a)	Specimen Certificate for shares of Common Stock of the Company. Incorporated by reference to Exhibit 4(a) to the 1988 10-K.
10(a)	Qualified Retirement Income Plan for Employees of the Company, as restated April 1, 1976. Incorporated by reference to Exhibit 11(c) of the Registrant's Registration Statement on Form S-1 (Registration No. 2-63114) declared effective February 9, 1979.
10(b)	Exclusive Distributor Agreement between the Company and ISP Technologies Inc., dated July 5, 2000. Incorporated by reference to Exhibit 10(d) of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000.
10(c)	Letter Amendment between the Company and ISP Technologies Inc. dated December 16, 2002 amending the Exclusive Distributor Agreement between the Registrant and ISP Technologies Inc. dated July 5, 2000. Incorporated by reference to Exhibit 10(d) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.
10(d)	Letter Amendment between the Company and ISP Technologies Inc. dated December 20, 2005 amending the Exclusive Distributor Agreement between the Registrant and ISP Technologies Inc. dated July 5, 2000 and amended on December 31, 2002. Incorporated by reference to Exhibit 10(d) of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.
10(e)	Letter Amendment between the Company and ISP Technologies Inc. dated May 5, 2010 amending the Exclusive Distributor Agreement between the Company and ISP Technologies Inc. dated July 5, 2000 and amended on December 16, 2002 and December 20, 2005. Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010.
10(f)	Manufacturing and Supply Agreement between the Company and Smiths Medical ASD, Inc. signed November 12, 2013 and effective as of November 1, 2013. Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K dated and filed November 18, 2013.
21	Subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Name Under Which it does Business

Dieselite Corporation (Inactive)	Delaware	N/A

31.1 Certification of Kenneth H. Globus, President and Principal Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Robert S. Rubinger, Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of Kenneth H. Globus, President and Principal Executive Officer of the Company, and Robert S. Rubinger, Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

INDEX TO FINANCIAL STATEMENTS
(For the years ended
December 31, 2014 and 2013)

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

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

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

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2014	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

See Notes to Financial Statements

STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 2014 and 2013

	Common stock Shares	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

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)	