

**UNITED-GUARDIAN, INC**

**AUDIT COMMITTEE CHARTER**

**(Adopted 9/7/06)**

*Purpose*

The Audit Committee is established by the Board of Directors (the Board) for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company.

The Committee is responsible for assisting the Board's oversight of (1) the quality and integrity of the Company's financial statements and related disclosures, (2) the Company's compliance with all legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the Company's internal audit and financial control functions.

*Composition*

The Audit Committee shall consist of a minimum of three members of the Board. The members shall be appointed annually by the Board.

Each member of the Committee shall meet all applicable independence and other requirements of law and of the American Stock Exchange and Securities and Exchange Commission. The Committee shall have at least one member who is financially sophisticated in accordance with Section 121 (2) (a) (ii) of the American Stock Exchange Company Guide or the Committee shall retain an expert as required by the Securities and Exchange Commission.

The Chair of the Committee shall be elected annually by the Board.

Members of the Committee may be removed or replaced, and any vacancies in the Committee shall be filled by the Board.

*Meetings*

The Chair of the Committee, in consultation with the Committee members, shall determine the schedule and frequency of Committee meetings, provided that the Committee shall meet a minimum of four times annually. The Committee shall also meet separately with management and the independent auditor at least once a year. The Committee Chair will also determine in advance of each meeting whether non-Committee Board members may attend the meeting and whether participation in the meeting by teleconference will be permitted. The Committee shall report regularly to the entire Board and shall submit to the Board minutes of its meetings.

## *Authority and Duties*

### **Independent Auditor's Qualifications and Independence**

1. The Committee shall be directly responsible for the appointment, retention, termination, compensation and oversight of the work of the independent auditor employed by the Company (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Committee.
2. The Committee shall have the sole authority to preapprove all audit services, including services relating to internal control over financial reporting, and permitted non-audit services to be provided by the independent auditor. The Committee shall also have the sole authority to preapprove all audit services to be provided by any accounting firm.
3. The Committee shall obtain and review with the lead audit partner and, if the Committee deems it appropriate, a more senior representative of the independent auditor, annually or more frequently as the Committee considers appropriate, a report by the independent auditor describing: the independent auditor's internal quality-control review, or peer review, of the independent auditor, or by any inquiry, review or investigation by governmental or professional or other regulatory authorities, within the preceding five years, respecting independent audits carried out by the independent auditor, and any steps taken to deal with these issues; and to assess the independent auditor's independence, all relationships between the independent auditor and the Company.
4. The Committee shall review the experience, qualifications, rotation requirements and performance of the senior members of the independent auditor team.

### **Financial Statements and Related Disclosure**

5. The Committee shall review and discuss the annual audited financial statements with management and the independent auditor, including reviewing the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," before the filing of the Company's Form 10-K. When practicable, the Committee shall also review the Company's Form 10Qs.
6. The Committee shall discuss generally with management earnings press releases before they are issued, if practicable.

- 7. The Committee shall discuss with management and the corporate audit staff (a) all critical accounting policies and practices to be used by the Company in preparing its financial statements, including any significant changes in the Company's selection or application of accounting principles, (b) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of these alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (c) other material communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences. In addition, the Committee shall review with the corporate audit staff any audit problems or difficulties and management's response.**
- 8. The Committee shall review with management the effectiveness of the Company's disclosure controls and procedures.**
- 9. The Committee shall review with management important trends and developments in financial reporting practices and requirements and their effect on the Company's financial statements.**

#### **Performance of the Corporate Audit Function and Independent Auditors**

- 10. The Committee shall review with management, the corporate audit staff, and the independent auditor the scope, planning and staffing of the proposed audit for the current year. The committee shall also review the internal audit function's organization, responsibilities, plans, results, budget and staffing. In addition, the Committee shall review and advise on the appointment, replacement reassignment, dismissal and compensation of the principal members of the corporate audit staff.**
- 11. The Committee shall review with management, the corporate audit staff, and the independent auditor the quality, adequacy and effectiveness of the Company's internal control over financial reporting, including reports regarding (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting and discuss the appropriate corrective action.**
- 12. The Committee shall review and discuss with management, the corporate audit staff, and the independent auditor management's annual assessment of the effectiveness of the Company's internal control over financial reporting and the independent auditor's reports on such assessment and the effectiveness of the Company's internal control over financial reporting.**

### **Compliance with Legal and Regulatory Requirements**

- 13. The Committee shall review with management, and any internal or external counsel as the Committee considers appropriate, any legal matters (including the status of pending litigation) that may have a material impact on the Company and any material reports or inquiries from regulatory or governmental agencies.**
- 14. The Committee shall review with the General Counsel the adequacy and effectiveness of the Company's procedures to ensure compliance with its legal and regulatory responsibilities.**
- 15. The Committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.**

### **Funding**

- 16. The Company will provide the funding the Audit Committee determines is necessary to (i) compensate the independent auditor for the purpose of preparing or issuing an audit report or related work, (ii) compensate any advisors the Audit Committee determines to retain and (iii) pay for any ordinary administrative expenses that are necessary and appropriate for the Audit Committee to carry out its duties.**