2008 Annual Report

United-Guardian, Inc.

Excellence through innovation.®

Cosmetic Ingredients

Personal & Health Care Products

Pharmaceuticals

Specialty Industrial Products

UNITED-GUARDIAN, INC.

Officers and Directors

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Chairman of the Board of Directors
and Director of Research

KENNETH H. GLOBUS
President, General Counsel
and Director

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Executive Vice President, Chief Financial Officer
Secretary, Director of Product Development
and Director

CHARLES W. CASTANZA
Senior Vice President
and Director of Plant Operations

JOSEPH J. VERNICE
Vice President
and Director of Technical Services

PETER A. HILTUNEN
Vice President
and Production Supervisor

CECILE M. BROPHY
Treasurer and Controller

HENRY P. GLOBUS
Director
Former Executive Vice President

LAWRENCE F. MAIETTA
Director
Partner in the accounting firm of
Bonamassa, Maietta & Cartelli, LLP
Brooklyn, NY

ARTHUR M. DRESNER
Director
Counsel to the law firm of
Duane Morris LLP, New York, NY

ANDREW A. BOCCONE
Director
Independent Business Consultant
Former President of Kline & Company, Inc.
Little Falls, NJ, an international business
consulting and market research firm

CHRISTOPHER W. NOLAN, SR.
Director
Managing Director, Mergers & Acquisitions
of Rabobank International, New York, NY

Corporate Profile

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

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

Over the years we have been issued over 32 patents, and we currently have additional patents pending. We have also received ISO 9001:2000 registration from Underwriters Laboratories, Inc., indicating that our documented procedures and overall operations have attained the very high level of quality needed for this certification level.

2008 ANNUAL REPORT

to the Stockholders of

UNITED-GUARDIAN, INC.

April 13, 2009

Dear Stockholder,

This past year has been another strong one for us, despite the economic turmoil that has been impacting the financial health of so many companies. Our products are used extensively by many consumer products companies around the world, many of which have reported sales declines. Despite that, our revenues last year were actually up 3.4% from $11,888,562 in 2007 to $12,292,147 in 2008. We did experience a slight decline in net income from continuing operations, from $3,427,085 ($0.69 per share) in 2007 to $3,162,931 ($0.64 per share) in 2008. This was due primarily to higher raw material costs, especially for one of our key raw materials, as well as higher freight and energy costs that resulted from the significant spike in fuel prices that the country experienced last year.

As a result of the strong year we had in 2008, the Board of Directors, at its meeting in December, authorized the payment of a year-end dividend of $0.28 per share. When added to the $0.27 per share mid-year dividend that was declared in May of last year, the total amount of dividends declared last year was $0.55 per share. Based on a stock price of $7.00 per share, which is the approximate price of our stock as of the writing of this letter, that equates to a dividend yield of almost 8%! Even after paying those dividends our balance sheet remains unusually strong, with stockholders equity increasing to $14.7 million and our current ratio ending the year at a very healthy 6.1 to 1.

Revenue from all three of our major product lines increased last year. Revenue from our personal care products line increased slightly, which was primarily attributable to price increases that we implemented during the year, while revenue from our pharmaceutical products line increased by about 6%, of which about 4% was due to a price increase. Over the years, sales of our pharmaceutical products have remained relatively stable from year to year. In regard to our non-pharmaceutical medical products, sales grew by 13% last year, of which about 7% was attributable to a price increase. This is one of our product lines that we think will continue to grow, and is an area in which we plan to focus some of the efforts of our new marketing consultant (more on that below). Considering the economic climate right now, we have been very pleased at the current level of sales, especially sales so far in the first quarter of this year.

We are continuing to work with our marketing partners to develop new products for the personal care and medical markets. While sales of our some of our LUBRAJEL® products continue to increase as our markets continue to expand, we are not relying on our current product lines alone to increase sales. We are continuing to look for new marketing opportunities, and are currently working on several new products, some of which have been in development since early last year, and some of which are new. Here is a brief look at some of our current research and development efforts:

- **EMOLIEN**: A new water-based emollient and moisturizer. It is intended to be a cost-effective emollient (0.5% to 0.2%) to increase lubricity and moisturization for creams, lotions and gels, as well as other potential uses. This product is currently being evaluated by International Specialty Products ("ISP"), our largest marketing partner, and we expect to formally introduce this product to our other marketing partners this spring.

- **ESSENTIAL ELEMENTS (COPPER/ZINC PEPTIDES):** A new product for skin and hair care applications. We have filed a patent on this product, and I will provide further details as that process proceeds. Without getting too specific, the product is intended to be used to maintain and improve healthy cellular metabolism. As with Emolien, this product is also being evaluated by ISP and we expect to begin full marketing in the second quarter of this year.

- **NATURAL POLYMER BLEND:** A line of polysaccharide polymers from natural sources (sourced from vegetables and micro-organisms), suitable as a thickener and emulsion stabilizer. Our development work on this product is almost complete, and we expect to send samples out to our marketing partners for evaluation later this year.

- **LUBRAJEL UT:** A form of LUBRAJEL with a new ingredient that may have medical-related uses. This product is still under development and will be discussed more fully after the appropriate patent filings are made. Since this is intended to be a medical product it will not be marketed by our regular marketing partners, and we will be working with our new consultant to develop a marketing plan for this product if the development work is successful.

- **CLORONINE**: a powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment. The product was developed many years ago, but has since been reformulated. The Company has been working with an Ohio-based company that is interested in finding new markets for CLORONINE as a disinfecting agent.

We will be meeting with our marketing partners in April to discuss these products and work together to develop new ideas for new products. With the extensive global marketing network we currently have in place, we have all the resources we need to quickly get new personal care products into the marketplace. The difficulty is in coming up with ideas for new products, and that is what we hope to achieve by regularly meeting with our marketing partners and getting their feedback.

As I mentioned previously, we are working with a new marketing consultant to help us bring more of our products to market and expand the market for some of our existing products. She is taking the place of our previous marketing consultant, who was unable to continue for personal reasons. Our new consultant has extensive marketing experience, and actually worked with our products years ago while she was employed by ISP in Asia. We are very pleased that she has decided to work with us, and are confident that she is the right person for the job. She started her work on March 1st, and has already been actively conducting market research to see where there may be new opportunities for us. We are very excited to be working with her, and I will continue to report on her progress.

The first quarter of this year has been unusually strong, and has actually been somewhat of a surprise to us based on how bad the global economy is right now. It is too early to know whether we will be able to sustain this level of sales, but for now we are very pleased with our current sales levels, and are looking forward to another profitable year.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus
President

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31, 2008	2007
Net sales	$ **12,292,147**	$ 11,888,562
Costs and expenses		
Cost of sales	**5,411,404**	4,854,031
Operating expenses	**2,698,671**	2,596,076
	8,110,075	7,450,107
Income from operations	**4,182,072**	4,438,455
Other income (expense)		
Investment income	**492,443**	579,032
(Loss) gain on sale of assets	**(7,763)**	5,000
	484,680	584,032
Income from continuing operations before income taxes	**4,666,752**	5,022,487
Provision for income taxes	**1,503,821**	1,595,402
Income from continuing operations	**3,162,931**	3,427,085
Income from discontinued operations, net of tax	**---**	32,862
Gain on sale of Eastern, net of tax	**---**	84,361
Income from discontinued operations	**---**	117,223
Net income	$ **3,162,931**	$ 3,544,308
Earnings per common share (basic and diluted) :		
Income from continuing operations	$ **0.64**	$ 0.69
Income from discontinued operations	$ **----**	$ 0.03
Total (basic and diluted)	$ **0.64**	$ 0.72
Weighted average shares (basic)	**4,946,439**	4,944,943
Weighted average shares (diluted)	**4,946,439**	4,945,923

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31 2008	December 31 2007
Current assets		
Cash and cash equivalents	$ **3,425,538**	$ 4,555,388
Certificates of deposit	**812,952**	555,829
Marketable securities	**8,239,183**	7,465,417
Accounts receivable, net of allowance for doubtful accounts of $30,000 in 2008 and 2007	**1,381,012**	1,278,386
Inventories (net)	**1,344,579**	1,188,222
Prepaid expenses and other current assets	**226,330**	427,714
Deferred income taxes	**355,798**	222,970
Assets of discontinued operations	**---**	64,619
Total current assets	**15,785,392**	15,758,545
Certificates of deposit, due 2010	**271,976**	---
Property, plant, and equipment		
Land	**69,000**	69,000
Factory equipment and fixtures	**3,288,808**	3,233,621
Building and improvements	**2,431,908**	2,335,975
Waste disposal plant	**133,532**	133,532
	5,923,248	5,772,128
Less accumulated depreciation	**4,971,269**	4,818,731
Net property, plant, and equipment	**951,979**	953,397
Other assets		
Pension asset	**123,589**	174,096
Other	**150,687**	148,430
Total other assets	**274,276**	322,526
Total assets	$ **17,283,623**	$ 17,034,468

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2008	December 31, 2007
Current liabilities		
Dividends payable	$ **1,385,003**	$ 1,385,003
Accounts payable	**187,810**	123,290
Loans payable, current portion	**6,657**	7,988
Accrued expenses	**969,242**	794,186
Liabilities of discontinued operations	**---**	47,386
Total current liabilities	**2,548,712**	2,357,853
Loans payable	**---**	6,657
Deferred income taxes	**28,616**	139,862
	28,616	146,519
Contingencies (Note J)		
Stockholders' equity		
Common stock, $.10 par value; 10,000,000 shares authorized; 5,008,639 shares issued and 4,946,439 shares outstanding in 2008 and 2007	**500,864**	500,864
Capital in excess of par value	**3,819,480**	3,819,480
Accumulated other comprehensive loss	**(386,208)**	(120,018)
Retained earnings	**11,131,789**	10,689,400
Treasury stock, at cost; 62,200 shares	**(359,630)**	(359,630)
Total stockholders' equity	**14,706,295**	14,530,096
Total liabilities and stockholders' equity	$ **17,283,623**	$ 17,034,468

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2008 and 2007

	Common Stock Shares	Common Stock Amount	Capital in excess of par value	Accumulated Other Comprehensive income (loss)	Retained earnings	Treasury stock	Total	Comprehensive income *
Balance, December 31, 2006	5,004,339	$ 500,434	$ 3,792,478	$ (566,130)	$ 9,858,538	$ (359,630)	$ 13,225,690	
Issuance of common stock in connection with exercise of stock options	4,300	430	13,727				14,157	
Tax benefit from exercise of stock options			13,275				13,275	
Effect of changing pension plan measurement date pursuant to SFAS 158, net of $4,071 tax					7,041		7,041	
Adjustment to apply SFAS 158, net of deferred income tax of $219,131				363,922			363,922	$ 363,922
Change in unrealized loss on marketable securities, net of deferred income tax of $47,774				82,190			82,190	82,190
Net income					3,544,308		3,544,308	3,544,308
Dividends declared					(2,720,487)		(2,720,487)	
Comprehensive income								$ 3,990,420
Balance, December 31, 2007	5,008,639	$ 500,864	$ 3,819,480	$ (120,018)	$ 10,689,400	$ (359,630)	$ 14,530,096	
Adjustment to apply SFAS 158, net of deferred income tax benefit of $20,725				(43,142)			(43,142)	$ (43,142)
Change in unrealized loss on marketable securities, net of deferred income tax benefit of $118,317				(223,048)			(223,048)	(223,048)
Net income					3,162,931		3,162,931	3,162,931
Dividends declared					(2,720,542)		(2,720,542)	
Comprehensive income								$ 2,896,741
Balance, December 31, 2008	5,008,639	$ 500,864	$ 3,819,480	$ (386,208)	$ 11,131,789	$ (359,630)	$ 14,706,295	

* Restated to reflect other comprehensive income in 2007 from application of SFAS 158 to $363,922, instead of $8,627 previously reported.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2008	2007
Cash flows from operating activities		
Net income	**$ 3,162,931**	$ 3,544,308
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**200,804**	197,802
Net (gain) loss on sale of equipment	**7,763**	(5,000)
Gain on sale of Eastern Chemical	**---**	(84,361)
Provision for bad debts	**10,684**	(5,000)
Deferred income taxes	**(105,032)**	146,317
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	**(113,310)**	70,327
Inventories	**(156,357)**	601,055
Prepaid expenses and other current and non current assets	**161,452**	(425,408)
Accounts payable	**64,520**	(66,966)
Accrued pension costs	**(9,288)**	(123,109)
Accrued expenses and taxes payable	**170,985**	202,825
Net cash provided by discontinued operations	**17,233**	108,273
Net cash provided by operating activities	**3,412,385**	4,161,063
Cash flows from investing activities		
Acquisition of plant and equipment	**(177,465)**	(302,406)
Proceeds from the sale of plant and equipment	**7,988**	5,000
Net change in temporary investments	**(529,099)**	(28,004)
Purchase of marketable securities	**(2,965,129)**	(588,802)
Proceeds from sale of marketable securities	**1,850,000**	600,000
Proceeds from sale of Eastern Chemical, net of tax	**---**	84,361
Net cash used in investing activities	**(1,813,705)**	(229,851)
Cash flows from financing activities		
Payment of long term debt	**(7,988)**	(7,988)
Tax benefit from exercise of options	**---**	13,275
Proceeds from exercise of stock options	**---**	14,157
Dividends paid	**(2,720,542)**	(2,422,755)
Net cash used in financing activities	**(2,728,530)**	(2,403,311)
Net (decrease) increase in cash and cash equivalents	**(1,129,850)**	1,527,901
Cash and cash equivalents, beginning of year	**4,555,388**	3,027,487
Cash and cash equivalents, end of year	**$ 3,425,538**	$ 4,555,388

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories Division, conducts research, product development, manufacturing and marketing of cosmetic ingredients and other personal care products, pharmaceuticals, medical and health care products, and proprietary specialty industrial products. Two major product lines, LUBRAJEL® and RENACIDIN®, together accounted for approximately 95% and 94% of revenue for the years ended December 31, 2008 and December 2007, respectively. LUBRAJEL accounted for 77% and 76% of revenue for the years ended December 31, 2008 and December 31, 2007, respectively, and RENACIDIN accounted for 18% of revenue in each of the years ended December 31, 2008 and December 31, 2007.

Until December 11, 2007, the Company also operated Eastern Chemical Corporation ("Eastern"), a wholly owned subsidiary of the Company, which distributed a line of fine organic chemicals, research chemicals, test solutions, indicators, intermediates, dyes and reagents. It also owned Paragon Organic Chemicals, Inc. ("Paragon"), a wholly owned subsidiary with no assets that served as a purchasing entity for Eastern. On December 11, 2007 substantially all of the assets of both of these entities were sold to Pfaltz & Bauer, Inc., a Connecticut company that operates a business very similar to that of Eastern. Accordingly, the financial statements reflect Eastern's financial results as discontinued operations.

Revenue Recognition

The Company recognizes revenue when products are shipped, title and risk of loss pass to customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. All products are shipped Free On Board ("FOB") Hauppauge, New York, the location of the Company's plant. Both title and risk of loss are deemed by both the Company and its customers to have passed to the customers at the time the goods leave the Company's plant. Shipments are only made after confirmation that a valid purchase order has been received and that the future collection of the sale amount is reasonably assured. All sales of the Company's products are deemed final, and there is no obligation on the part of the Company to repurchase or allow the return of the goods unless they are defective. The Company does not make sales on consignment, and the collection of the proceeds of the sale is not contingent upon the customer being able to sell the goods to a third party.

Any allowance for returns is taken as a reduction of sales within the same period the revenue is recognized. Such allowances are based on historical experience. The Company has not experienced significant fluctuations between estimated allowances and actual activity.

Cash and Cash Equivalents

For financial statement purposes, the Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less at inception. The Company deposits cash and cash equivalents with high credit quality financial institutions and believes that any amounts in excess of insurance limitations to be at minimal risk. Cash and cash equivalents held in these accounts are currently insured by the Federal Deposit Insurance Corporation up to a maximum of $250,000. This limit is tentatively set to revert back to $100,000 after December 31, 2009.

Dividends

On May 14, 2008, the Company declared a cash dividend of $0.27 per share (aggregating $1,335,539) payable on June 16, 2008 to stockholders of record as of June 2, 2008. On December 3, 2008 the Company declared a cash dividend of $0.28 per share (aggregating $1,385,003) payable on January 6, 2009 to stockholders of record as of December 15, 2008.

On May 16, 2007, the company declared a special dividend of $0.27 per share (aggregating $1,335,485) payable on June 15, 2007 to stockholders of record as of June 1, 2007. On December 6, 2007, the company declared a cash dividend of $0.28 per share aggregating $1,385,003 payable on January 7, 2008 to stockholders of record as of December 17, 2007.

Supplemental Disclosures of Non-cash Investing and Financing Activities

Cash payments for income taxes were $1,425,382 and $1,836,483 for the years ended December 31, 2008 and 2007, respectively.

For the years ended December 31, 2008 and 2007, the Company had the following non-cash investing and financing activities:

	2008	2007
Dividends declared but not yet paid	$ 1,385,003	$1,385,003

Marketable Securities and Certificates of Deposit

Marketable securities include investments in equity mutual funds, government securities and corporate bonds which are classified as "Available for Sale" securities and are reported at their fair values under Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Unrealized gains and losses on "Available for Sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on sales of investments are determined on a specific identification basis. Fair values are based on quoted market prices.

Certificates of deposit that mature in one year or less are classified as current, and those that mature in more than one year are classified as non-current. These certificates are carried at cost, which approximates fair value.

Inventories

Inventories are valued at the lower of cost or current market value. Cost is determined using the average cost method, which approximates cost determined by the first-in, first-out (“FIFO”) method. Inventory costs include material, labor and factory overhead.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Major replacements and betterments are capitalized, while routine maintenance and repairs are expensed as incurred. Assets are depreciated under both accelerated and straight-line methods. Depreciation charged to income as a result of using accelerated methods was not materially different than that which would result from using the straight-line method for all periods presented. Certain factory equipment and fixtures are constructed by the Company using purchased materials and in-house labor. Such assets are capitalized and depreciated on a basis consistent with the Company's purchased fixed assets.

Estimated useful lives are as follows:

Factory equipment and fixtures	5 - 7 years
Building	40 years
Building improvements	Lesser of useful life or 20 years
Waste disposal system	7 years

Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS 144”). SFAS 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Other Asset

Other asset consists of a $188,360 payment given to a vendor for regulatory and validation work that was needed to qualify one of the vendor's manufacturing locations for the production of the Company's RENACIDIN IRRIGATION product. This amount is being amortized over its estimated 5-year benefit period at the rate of $37,672 per year, starting in 2008.

Fair Value of Financial Instruments

The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with SFAS No. 107, Disclosures About Fair Value of Financial Instruments. Management of the Company believes that the fair value of financial instruments, consisting of cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable, dividends payable and accrued expenses approximates their carrying value due to their short payment terms. Marketable securities are carried at fair value.

Concentration of Credit Risk

Accounts receivable potentially expose the Company to concentrations of credit risk. The Company monitors the amount of credit it allows each of its customers, using the customer's prior payment history to determine how much credit to allow or whether any credit should be given at all. It is the Company's policy to discontinue shipments to any customer that is substantially past due on its payments. The Company sometimes requires payment in advance from customers whose payment record is questionable. As a result of its monitoring of the outstanding credit allowed for each customer, as well as the fact that the majority of the Company's sales are to customers whose satisfactory credit and payment record has been established over a long period of time, the Company believes that its accounts receivable credit risk has been reduced. However, the Company acknowledges that as of the date of these financial statements the recession in the United States, as well as the poor economic climate globally, has increased the chances of customers defaulting on their obligations, and the Company has tightened its credit policies accordingly.

For the year ended December 31, 2008, two customers, both of them distributors and marketing partners of the Company, accounted for a total of approximately 54% of the Company's revenues, and one of those customers accounted for approximately 52% of the Company's outstanding accounts receivable at year end. For the year ended December 31, 2007, those same two customers accounted for a total of approximately 52% of the Company's revenues and 53% of the Company's outstanding accounts receivable at year end. The marketing agreement with one such customer, whose purchases amounted to 45% of total revenue in 2008, expired in December 2008. The Company is in the process of negotiating an extension of that agreement and expects to have one in place by the end of the second quarter of 2009.

Income Taxes

Deferred tax assets and liabilities reflect the future tax consequences of the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48").The Company adopted the provisions of FIN 48 on January 1, 2007. The implementation of FIN 48 did not result in any adjustment to the Company's beginning tax positions. The Company continues to fully recognize its tax benefits, which are offset by a valuation allowance to the extent that it is more likely than not that the deferred tax assets will not be realized. As of December 31, 2007 and December 31, 2008, the Company did not have any unrecognized tax benefits.

In the past, the Company has filed consolidated Federal income tax returns in the U.S., and separate income tax returns in New York State. The Internal Revenue Service ("IRS") has examined the Company's U.S. income tax returns through 2004. The Company is subject to examination by the IRS for years 2005, 2006, 2007 and 2008, and by New York State for years 2005 through 2008.

The Company's policy is to recognize interest and penalties as interest expense.

Research and Development

The Company's research and development expenses, included in operating expenses, are recorded in the year incurred. Research and development expenses were approximately $423,000 and $420,000 for the years ended December 31, 2008 and 2007, respectively.

Shipping and Handling Costs

Shipping and handling costs are classified in operating expenses in the accompanying consolidated statements of income. Shipping and handling costs were approximately $102,000 and $86,000 for the years ended December 31, 2008 and 2007 respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2008 and 2007 the Company incurred $26,200 and $26,100 of advertising costs, respectively.

Stock-Based Compensation

In 2004, the Company approved a new stock option plan ("2004 Stock Option Plan"). Under SFAS No. 123R, Share Based Payment ("SFAS 123R"), all share-based payments to employees, including grants of employee stock options, are recognized as compensation expense over the requisite service period (generally the vesting period) in the financial statements based on their fair values on grant date. For options with graded vesting, the Company fair values the stock option grants and recognizes compensation expense as if each vesting portion of the award was a separate award. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount of expense recognized. In addition, the realization of tax benefits in excess of amounts recognized for financial reporting purposes will be recognized as a financing activity rather than as an operating activity.

No stock options were granted in 2008 or 2007.

Earnings Per Share Information

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share include the dilutive effect of outstanding stock options.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimated items include the allowance for bad debts, possible impairment of marketable securities, reserve for inventory obsolescence, pension liability and the allocation of overhead.

Segment Reporting

SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, requires that the Company disclose certain information, including geographic information, about its business segments defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates in one business segment.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141(R)"). This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company's fiscal year beginning January 1, 2009. The impact of the adoption of SFAS 141(R) on the Company's financial statements will largely be dependent on the size and nature of any business combinations completed after adoption of this statement.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted; in November, 2007, the FASB agreed to defer the effective date of SFAS 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Generally, the provisions of this statement should be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied. The Company adopted this statement effective January 1, 2008 (see Note B)

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option of Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 provides an option to report selected financial assets and financial liabilities using fair value. The standard establishes required presentation and disclosures to facilitate comparisons with companies that use different measurements for similar assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption allowed if SFAS 157 is also adopted. The Company concluded that the adoption of SFAS 159 will have no effect on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements ("SFAS 160"). This Statement amends ARB 51 to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for the Company's fiscal year beginning January 1, 2009. The Company believes that the adoption of SFAS 160 will have no current impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not anticipate that the statement will have a material impact, since the Company has not historically engaged in hedging activities or acquired derivative instruments.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." This statement is not expected to change the Company's current accounting practice.

NOTE B - MARKETABLE SECURITIES

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), for assets and liabilities measured at fair value on a recurring basis. SFAS 157 accomplishes the following key objectives:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date;
- Establishes a three-level hierarchy ("Valuation Hierarchy") for fair value measurements;
- Requires consideration of the Company's creditworthiness when valuing liabilities; and
- Expands disclosures about instruments measured at fair value.

The Valuation Hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the Valuation Hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of the Valuation Hierarchy and the distribution of the Company's financial assets within it are as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following available-for-sale securities are re-measured to fair value on a recurring basis and are valued using level 1 inputs using quoted prices (unadjusted) for identical assets in active markets as defined by SFAS 157:

December 31, 2008	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
U.S. Treasury and agencies			
Maturities within 1 year	$ 1,140,227	$ 1,153,798	$ 13,571
Maturities after 1 year through 5 years	2,458,685	2,536,931	78,246
Total U.S. Treasury and agencies	$ 3,598,912	$ 3,690,729	$ 91,817
Fixed income mutual funds	4,715,827	4,380,669	(335,158)
Equity and other mutual funds	240,494	167,785	(72,709)
	$ 8,555,233	$ 8,239,183	$ (316,050)

December 31, 2007	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
U.S. Treasury and agencies			
Maturities within 1 year	$ 949,354	$ 960,329	$ 10,975
Maturities after 1 year through 5 years	1,803,298	1,835,253	31,955
Total U.S. Treasury and agencies	$ 2,752,652	$ 2,795,582	$ 42,930
Fixed income mutual funds	4,452,050	4,404,078	(47,972)
Equity and other mutual funds	235,399	265,757	30,358
	$ 7,440,101	$ 7,465,417	$ 25,316

Proceeds from the sale and redemption of U.S. Treasury and agency bonds amounted to $1,850,000 and $600,000 for the years ended December 31, 2008 and 2007, respectively. Realized gains in each year were insignificant.

Investment income consisted principally of interest income from certificates of deposit, bonds and money market funds and dividend income from bond funds and mutual funds.

NOTE C - INVENTORIES

Inventories consist of the following:

	December 31, 2008	December 31, 2007
Raw materials and work-in-process	$ 422,437	$ 359,730
Finished products	922,142	828,492
	$ 1,344,579	$ 1,188,222

Inventories at December 31, 2008 and 2007 are stated net of a reserve of $39,000 for slow moving and obsolete items.

NOTE D - NOTES PAYABLE - BANKS

On January 17, 2007 the Company entered into a line of credit agreement with JPMorgan Chase Bank for borrowings of up to $2,000,000 at an interest rate of 1.0% below the Prime Rate. The line of credit was renewed, effective as of June 30, 2007 and expired on June 30, 2008.

The company did not renew this line of credit on June 30, 2008. There are no outstanding notes at December 31, 2008

NOTE E – INCOME TAXES

The provision for income taxes from continuing operations consists of the following:

	Year ended December 31,	
	2008	2007
Current		
Federal	$ 1,584,183	$ 1,473,999
State	24,670	(24,914)
	1,608,853	1,449,085
Deferred		
Federal	(102,002)	118,506
State	(3,030)	27,811
	(105,032)	146,317
Total provision for income taxes	$ 1,503,821	$ 1,595,402

The following is a reconciliation of the Company's effective income tax rate to the Federal statutory rate (dollar amounts have been rounded to the nearest thousand):

	Year ended December 31,			
	2008		2007	
	($)	%	($)	%
Income taxes at statutory Federal income tax rate	$ 1,587,000	34	$ 1,708,000	34
State income taxes, net of Federal benefit	14,000	---	2,000	---
Domestic Production Activities deduction	(82,000)	(2)	(78,000)	(2)
Nondeductible expenses	---	---	2,000	---
Change in deferred tax asset valuation allowance	---	---	(43,000)	(1)
Other, net	(15,000)	---	4,000	1
Actual income tax expense	$ 1,504,000	32	$ 1,595,000	32

During 2008 and 2007, the Company realized the tax benefits of the Domestic Production Activities deduction, which amounted to approximately 6% of net taxable income from domestic production activities.

The tax effects of temporary differences which comprise the deferred tax assets and liabilities are as follows:

	Year ended December 31,	
	2008	2007
Deferred tax assets		
Current		
Accounts receivable	$ 10,398	$ 10,398
Accrued pension liability	95,323	74,598
Inventories	21,457	20,375
Accrued expenses	228,620	117,599
	355,798	222,970
Deferred tax liabilities		
Non-current		
Pension asset	(138,159)	(131,088)
Unrealized (gain) loss on marketable securities	109,543	(8,774)
	(28,616)	(139,862)
Net deferred tax asset	$ 327,182	$ 83,108

A reduction of $42,798 in the valuation allowance for the year ended December 31, 2007 was due to the company realizing the benefit of capital loss carryforwards from 2006, which substantially offset the capital gain on disposition of the Eastern division.

NOTE F - BENEFIT PLANS

Pension Plan

The Company has a noncontributory defined benefit pension plan (the "Plan") which covers substantially all of its employees. Benefits are based on years of service and employees' compensation prior to retirement. Amounts are funded in accordance with the requirements of ERISA (Employee Retirement Income Security Act of 1974) and the Plan is administered by a trustee who is responsible for payments to retirees. Investment strategies are determined by the Board of Directors.

As of December 31, 2007 the Company put in place a freeze on future benefit accruals to the Plan while the Company investigated the advisability of replacing the Plan with a defined contribution plan, which would be coordinated with, and be part of, the Company's existing 401(k) plan. On February 19, 2008, the Company decided to terminate the Plan, subject to regulatory approval, and has begun taking the steps necessary to do so. In November 2008 the Company submitted the necessary

applications to the Pension Benefit Guaranty Corporation ("PBGC"), and the time for them to respond with any objections has now expired. The only remaining requirement in order to terminate the plan is to receive IRS approval, which the Company expects to receive by the first quarter of 2010, but could come sooner, depending on the IRS workload.

Upon termination of the pension plan, non-vested benefits will become fully vested, and the effects of future contribution levels will cease to be an obligation. Any resulting gain is first offset against an existing net loss included in accumulated other comprehensive income.

Under FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* ("SFAS 88"), if the net effect of a termination is a gain, the gain is to be recognized when the termination occurs, which would be the date the employees are terminated or the date the pension plan is terminated.

The Plan assets at fair value as of December 31, 2008 and 2007 are as follows:

	2008	2007
Equity securities:		
Principal Financial Group Stock Separate Account	$ 52,212	$ 138,209
Principal Large Cap Stock Index Separate Account	173,785	286,084
Principal Medium Company Blend Separate Account	135,743	210,922
TOTAL EQUITY SECURITIES	$ 361,740	$ 635,215
Debt securities:		
General Investment Account*	$ 1,668,662	$ 1,826,539
Contributions from employer received between October 1, 2007 measurement date and December 31, 2007:	---	300,000
TOTAL ASSETS	$ 2,030,402	$ 2,761,754

* The General Investment Account represents an interest in a portfolio of intermediate term fixed-income investments maintained by the Principal Financial Group.

Historical and expected future returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free real rate of return, and the associated risk premium. A weighted-average rate was developed based on those overall rates and target asset allocation of the Plan.

Based on current data and assumptions, the following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid over the next ten years as follows:

Year Ending	Expected Future Benefits Payable
2009	$ 170,000
2010	41,000
2011	75,000
2012	48,000
2013	210,000
2014-2018	800,000

The Company does not plan to make contributions to the Plan in 2009.

A measurement period from October 1, 2006 to October 1, 2007 has been used for the year ended December 31, 2007. The liabilities and assets are calculated at October 1, 2007. Assets are adjusted for known contributions received by the Company between October 1, 2007 and December 31, 2007.

SFAS No. 158 required a benefit cost of $11,112 for the period from October 1, 2007 to December 31, 2007 be accounted for by adjustments to balance sheet accounts, rather than through profit and loss accounts for the preceding or following year. This amount was recorded as of December 31, 2007 as a pension asset and an increase in retained earnings of $7,041 (net of deferred income taxes of $4,071).

As required by SFAS No. 158, the measurement date for the plan's assets and liabilities has been changed to conform with the Company's fiscal year end.

The following table sets forth the Plan's funded status:

	Year ended December 31, 2008	Year ended December 31, 2007
Change in Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 2,598,770	$ 2,914,689
Service cost	---	126,132
Interest cost	176,429	144,358
Actuarial (gain)/loss	(43,498)	64,527
Benefits paid	(44,654)	(83,793)
Effect of settlement/curtailment	(780,234)	(567,143)
Projected benefit obligation at end of year	$ 1,906,813	$ 2,598,770
Change in Plan Assets:		
Fair value of Plan assets at beginning of year	$ 2,761,754	$ 2,208,527
Actual return on Plan assets	16,264	137,020
Employer contributions	77,272	500,000
Benefits paid	(44,654)	(83,793)
Effect of settlement	(780,234)	---
Fair value of Plan assets at end of year	$ 2,030,402	$ 2,761,754
Funded status at end of year - overfunded	$ 123,589	162,984
Amounts recognized in statement of financial position :		
Noncurrent assets	123,589	$ 162,984
Total	$ 123,589	$ 162,984
Amounts recognized in accumulated Other Comprehensive Income ("OCI")		
Total net loss	$ 275,024	$ 215,228
Total accumulated OCI (not adjusted for applicable tax)	$ 275,024	$ 215,228
Weighted-average assumptions used to determine benefit obligations		
Discount rate	6.25%	5.75%
Rate of compensation increase	5.36%	5.42%

The net periodic benefit cost includes the following components:

	Year ended December 31, 2008	Year ended December 31, 2007
Components of net periodic benefit cost:		
Service cost	$ ---	$ 126,132
Interest cost	176,429	144,358
Expected return on Plan assets	(232,109)	(137,632)
Amortization of net actuarial loss	---	49,051
Amortization of prior service cost	---	7,461
Effect of special events	112,552	24,537
Net periodic benefit cost	$ 56,872	$ 213,907
Other changes recognized in OCI		
Net loss	$ 172,348	65,139
Amortization of net gain (loss)	---	(49,051)
Amortization of prior service cost	---	(7,461)
Amount recognized due to special event	(112,552)	(567,143)
Prior service cost recognized due to curtailment	---	(24,537)
Total recognized in other comprehensive income	$ 59,796	$ (583,053)
Total recognized in net periodic benefit cost and OCI	$ 116,668	$ (369,146)
Weighted-average assumptions used to determine net period benefit cost		
Discount rate	5.75%	5.50%
Expected long-term return on Plan assets	7.00%	7.00%
Rate of compensation increase	5.42%	5.50%

401(k) Plan

The Company maintains a 401(k) plan for all of its eligible employees. Under the plan, employees may defer up to 15% of their weekly pay as a pre-tax investment in a savings plan. In addition, the Company made contributions of 50% of the first 6% of each employee's elective deferral up to a maximum employer contribution of 3% of biweekly pay in 2007.

Because the Company froze all benefits in its defined benefit pension plan as of December 31, 2007, and has initiated termination of that Plan, the Company modified its 401(k) plan, effective January 1, 2008, by increasing the employer contribution to a maximum of 100% of the first 4% of each employee's pay, and will, beginning in 2009, make an additional discretionary contribution to each employee's account based on a "pay-to-pay" safe-harbor formula that qualifies the 401(k) plan under current IRS regulations.

Employees become fully vested in Company contributions after one year of employment. 401(k) Company contributions were approximately $91,000 and $65,000 for the years ended December 31, 2008 and 2007, respectively.

In addition, in December 2008 the Company's Board of Directors authorized a discretionary contribution to the modified 401(k) plan in the amount of $175,000, to be allocated among all eligible employees for the 2008 year. The contribution, which had been accrued during 2008, was made in January, 2009.

Stock Option Plans

At its meeting on March 19, 2004 the Board of Directors of the Company approved the adoption of the 2004 Stock Option Plan. The plan authorizes the granting of options for up to 500,000 shares, and covers both employees and directors. The adoption and implementation of the new plan was ratified by the shareholders of the Company at the Company's annual meeting of shareholders on May 19, 2004. No options have been granted under this plan.

There were also no stock option transactions from the expired Non-Statutory Stock Option Plan for Directors. The following summarizes the stock option transactions from the previous Employee Incentive Stock Option Plan that is now expired and was replaced by the 2004 Stock Option Plan:

	Number Outstanding	Weighted average exercise price per share
Options outstanding and exercisable at January 1, 2007	4,300	$3.29
Exercised	(4,300)	$3.29
Options outstanding and exercisable at December 31, 2007	0	---

As of December 31, 2008 and 2007, there were no stock options outstanding.

The intrinsic value of the 4,300 options exercised during 2007 was $40,304.

As of December 31, 2008 and 2007, there was no remaining unrecognized compensation cost related to the non-vested share-based compensation arrangements granted under the Company's plans.

The Company did not record any compensation expense during the years ended December 31, 2008 and 2007 under the provisions of SFAS 123R.

Cash received from options exercised under all share-based payment arrangements for the year ended December 31, 2007 was $14,157.

NOTE G – DISCONTINUED OPERATIONS

On December 11, 2007 the Company completed the sale of substantially all of the assets of its Eastern subsidiary. The assets of Eastern were sold for $266,759, which resulted in a gain of $84,361 (net of taxes of $45,396). The Eastern corporate entity was dissolved in December 2008. Paragon Organic Chemicals, a purchasing entity for Eastern with no assets of its own, was also dissolved in December 2008, but the right to use the Paragon name was sold to the purchaser of the Eastern assets. As a result of the sale, Eastern is classified as discontinued operations for all periods presented.

The table below sets forth the results of operations of Eastern. The results below do not include any allocated or common overhead expenses. In accordance with SFAS 144, the gain on the sale of Eastern and its operating income are reflected in the accompanying financial statements as discontinued operations. The Company recorded a liability for severance payments due to employees of Eastern of $47,386 at December 31, 2007. There was no income or loss from discontinued operations in 2008.

The results of operations of Eastern for the year ended December 31, 2007, and its financial position as of December 31, 2007, were as follows:

		2007
Results of Operations:		
Revenue	$	841,060
Less:		
Cost of goods sold		(479,590)
General and administrative		(309,008)
Income before income taxes		52,462
Income tax provision		(19,600)
Income from discontinued operations, excluding gain on sale	$	32,862
Financial position:		
Net current assets:		
Accounts receivable	$	64,619
Accounts payable		(47,386)
Net current assets from discontinued operations	$	17,233

NOTE H - EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2008 and 2007:

	Year ended December 31,			
		2008		2007
Numerator:				
Net income from continuing operations	$	3,162,931	$	3,427,085
Net income from discontinued operations		---		117,223
Net Income	$	3,162,931	$	3,544,308
Denominator:				
Denominator for basic earnings per share (weighted average shares)		4,946,439		4,944,943
Effect of dilutive securities:				
Employee stock options		---		980
Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions		4,946,439		4,945,923
Basic and diluted earnings per share				
Continuing operations	$	.64	$	.69
Discontinued operations	$	---	$	.03
Total – Basic and diluted	$	.64	$	.72

In 2008 and 2007 there were no options excluded from the computation of diluted earnings per share.

NOTE I - GEOGRAPHIC and OTHER INFORMATION

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

The Company's products are separated into four distinct product categories: pharmaceuticals, personal care products (including cosmetic ingredients), medical products, and industrial products. Each product category is marketed differently. The cosmetic ingredient/personal care products are marketed through a global network of marketing partners and distributors. These marketing partners purchase product outright from the Company and market and re-sell those products to the end-users. Title and risk of loss passes to those customers when the goods leave the Company's facility in Hauppauge, New York, and the Company is under no obligation to accept the return of any product unless the product is defective. The Company does not make any sales on consignment.

No prior regulatory approval was needed by the Company to sell any products other than its pharmaceutical products. The end-users of its products may or may not need regulatory approvals, depending on the intended claims and uses of those products.

The pharmaceutical products are two urological products that are sold to end-users primarily through distribution agreements with the major drug wholesalers. For these products, the Company does the marketing, and the drug wholesalers supply the product to the end-users, such as hospitals and pharmacies. These products are drug products that required the Company to obtain regulatory approval before marketing.

The medical products are non-pharmaceutical products, such as medical lubricants, that are marketed solely by the Company directly to end-users, such as companies that incorporate some of the Company's lubricating gels into urethral catheters. These products are distinguished from the pharmaceutical products in that, unlike the pharmaceutical products, the Company does not have to obtain regulatory approval prior to marketing these products, since that is the responsibility of the end-user, who is generally incorporating the product into a medical device.

The industrial products are also marketed directly to the end-users by the Company, and generally do not require that the Company obtain regulatory approval. However, the end-users may have to obtain such regulatory approvals before marketing these products.

Gross Revenues

	Year ended December 31,	
	2008	2007
Personal Care	$ 7,876,801	$ 7,776,595
Pharmaceuticals	2,642,935	2,497,897
Medical	1,958,494	1,731,993
Industrial	106,543	135,635
	$ 12,584,773	$ 12,142,120
Less Discounts and allowances	(292,626)	(253,558)
	$ 12,292,147	$ 11,888,562

Geographic Information

	Year ended December 31,			
	2008		2007	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	$ 5,226,825	$ 951,979	$ 5,067,189	$ 953,397
France	1,347,548	---	1,262,568	---
Other countries	5,717,774	---	5,558,805	---
	$ 12,292,147	$ 951,979	$ 11,888,562	$ 953,397

Revenue from Major Customers

	Year ended December 31,	
	2008	2007
Customer A	$ 5,478,157	$ 5,169,988
Customer B	1,162,386	1,027,334
All other customers	5,651,604	5,691,240
	$ 12,292,147	$ 11,888,562

NOTE J - CONTINGENCIES

While the Company has claims that arise from time to time in the ordinary course of its business, the Company is not currently involved in any material claims.

NOTE K - ACCRUED EXPENSES

Accrued expenses at December 31, 2008 and 2007 consist of:

	2008	2007
Accrued 401(k) plan contribution	$ 175,000	$ ---
Accrued bonuses	170,000	144,000
Accrued distribution fees	213,541	146,455
Other	410,701	503,731
	$ 969,242	$ 794,186

NOTE L - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2008 and 2007 the Company paid to Henry Globus, a former officer and current director of the Company, $21,816 and $21,024 respectively, for consulting services in accordance with his employment termination agreement of 1988.

During each of the years ended December 31, 2008 and 2007 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $10,500 for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta, and Cartelli, LLP, is currently a director of the Company.

During the year ended December 31, 2008, Kenneth Globus, President of the Company, purchased a used company-owned vehicle for $7,988.

Management's Discussion and Analysis of Financial Condition and Results of Operation.

Critical Accounting Policies

The Company's consolidated 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 Consolidated 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 consolidated 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 accounts for its marketable securities in accordance with SFAS 115, Accounting for Certain Investments in Debt or Equity Securities. The Company classifies its marketable securities as available-for-sale at the time of purchase and re-evaluates such designation as of each consolidated balance sheet date. The Company's marketable securities include investments in equity mutual funds, government securities, and corporate bonds. The Company's marketable securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains or losses on the sale of marketable securities are determined using the specific-identification method and are insignificant for the years ended December 31, 2008 and 2007. 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 2008 the Company did not record an impairment charge regarding its investment in marketable securities because, based on management's evaluation of the circumstances, management believes 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 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 Operation

Year Ended December 31, 2008 compared with Year Ended December 31, 2007

Revenue

Revenue in 2008 increased by $403,585 (3.4%) compared with 2007. This increase was primarily attributable to increases in sales in three product lines:

(a) **Personal Care products**: Revenue from the sales of personal care products, including cosmetic ingredients, increased by $100,206 (1.3%) for the year ended December 31, 2008 when compared with 2007. All of the increase was attributable to price increases on the personal care products, which amounted to approximately 7% for the year. The volume of sales of these products decreased by approximately 6% for the year. Almost all of the increase in revenue was the result of increased sales of the Company's extensive line of LUBRAJEL products. The Company believes that the decrease in volume was primarily due to ordering patterns of the Company's customers, and not the result of any decrease in demand for these products.

(b) **Pharmaceuticals**: Revenue from the sales of the Company's pharmaceutical products increased by $145,038 (5.8%) for the year ended December 31, 2008 compared with 2007. This increase was primarily due to a price increase of 4%, which was implemented on April 1, 2008.

(c) **Medical (non-pharmaceutical) products**: Revenue from the sales of the Company's non-pharmaceutical medical products increased $226,501 (13.1%) when compared with 2007. Approximately 7% of this increase was the result of a price increase; the balance was due to increased demand as well as the buying patterns of its customers.

Revenue was also impacted slightly by a decrease of $29,092 (21.5%) in revenue from the Company's line of specialty industrial products, and an increase of $32,573 (12.5%) in sales discounts and allowance reserves.

In the personal care market, the Company's sales to ISP, its largest marketing partner, increased by 6.0% in 2008 compared with 2007. The Company's five other marketing partners for personal care products exhibited both increases and decreases in 2008 compared with 2007. The net effect was that the Company's combined sales to those five marketing partners decreased 8.0% in 2008 compared with 2007. The Company attributes most of this decrease to purchasing patterns and stocking levels rather than to any significant decrease in demand for the Company's products..

Overall, total revenue from the sales of LUBRAJEL products to all customers increased by 4.4% in 2008 compared with 2007. It is estimated that price increases accounted for approximately 7% of this increase for all but two of the products in the LUBRAJEL line (which did not increase in price in 2008). The volume of all LUBRAJEL products sold, both for personal care and medical uses, decreased by approximately 2.2% in 2008 compared with 2007.

The Company's sales of its two pharmaceutical products increased by 5.8% in 2008 compared with 2007. Both RENACIDIN and CLORPACTIN sales were up, but approximately 4% of the revenue increase was due to the price increase rather than an increase in volume.

Cost of Sales

Cost of sales as a percentage of sales in 2008 increased to 44.0% from 40.8% in the prior year. The increase was primarily due to an increase in the cost of one of the Company's primary raw materials, as well as increases in overhead costs and a decrease in production volumes. Overhead increases were mainly due to increases in factory expense, shipping expense, intangible amortization, and indirect labor expenses.

Operating Expenses

Operating expenses increased by $102,595 (4.0%) in 2008 compared with the prior year. This increase was mainly due to increases in payroll and payroll related expenses, which were partially offset by a decrease in consulting fees.

Other Income (Expense)

The Company has interest income from certificates of deposit, money market funds, and bonds, and dividend income from both stock and bond mutual funds. Other income (net) decreased $99,352 (17.0%) for the year ended December 31, 2008, which was mainly attributable to a decrease in investment income of $113,068 in 2008. This decrease was primarily attributable to a decline in interest rates on the certificates of deposit, money market funds, and bonds. The company realized a loss on the sale of fixed assets of $7,763 during 2008, while realizing a gain on the sale of fixed assets of $5,000 during 2007.

Discontinued Operations

In December 2007 the Company realized a gain of $84,361 (net of income taxes of $45,396) on the sale of substantially all of the assets of its Eastern subsidiary. Income from operations of Eastern during 2007 prior to the sale amounted to $32,862 (net of income taxes of $19,600). The Company believes that the absence of cash flows from the discontinuation of Eastern will not have a significant impact on the Company's future liquidity.

Provision for Income Taxes

The provision for income taxes decreased $91,581 (5.7%) in 2008 compared with 2007. This decrease was mainly due to a decrease in earnings from continuing operations before taxes of $355,735 (7.1%) in 2008 when compared with 2007. The Company's effective income tax rate was approximately 32% for each year.

Liquidity and Capital Resources

Working capital decreased from $13,400,692 at December 31, 2007 to $13,236,680 at December 31, 2008, a decrease of $164,012 (1.2%). The current ratio decreased to 6.1 to 1 at December 31, 2008 from 6.7 to 1 at December 31, 2007. The decrease in working capital and in the current ratio reflects usual fluctuations in working capital components associated with the Company's normal business activities.

Accounts receivable increased by $102,626 in 2008 compared with 2007. This was mainly due to one customer paying more slowly than in prior years. The average period of time that an account receivable was outstanding was approximately forty days for both 2008 and 2007. The Company has a bad debt reserve of $30,000, and believes that the balance of its accounts receivable is fully collectable.

On January 17, 2007 the Company entered into a line of credit agreement with JPMorgan Chase Bank for borrowings of up to $2,000,000 at an interest rate of 1.0% below the Prime Rate. The line of credit expired June 30, 2008. The Company decided that the cost of maintaining the line of credit was no longer justified, since the Company had no foreseeable need for the line. For that reason, the Company has chosen not to renew it.

The Company generated cash from operations of $3,412,385 in 2008 compared with $4,161,063 in 2007. The decrease in 2008 was primarily due to increases in accounts receivable and inventory, and a decrease in net income, which were offset by an increase in accounts payable and a decrease in prepaid expenses.

Cash used in investing activities was $1,813,705 for the year ended December 31, 2008 compared with $229,851 for the year ended December 31, 2007. The change was mainly due to an increase in the purchases of marketable securities in 2008.

Cash used in financing activities was $2,728,530 and $2,403,311 during the years ended December 31, 2008 and 2007, respectively. The increase was primarily due to the increase in the dividend declared in December 2007 (which was paid in January 2008) to $0.28 per share from the $0.22 per share dividend that was declared in December 2006 (and paid in January 2007). 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.

Commitments

The Company currently has approximately $15,721 in lease commitments. Of this amount, $6,738 is due in 2009, $6,738 is due in 2010, and the remaining $2,245 is due in 2011.

The Company has an outstanding loan for the purchase of an automobile, the balance of which, approximately $6,657, is due in 2009.

New Accounting Pronouncements

See Note A to the financial statements regarding new accounting pronouncements.

Patent Expirations

The following of the Company's patents expired over the past two fiscal years:

1. Renacidin Irrigation – expired October 2007
2. Iodophor; polyethylene glycol alkyl aryl sulfonate iodine complex – expired April 2008
3. Iodophor; biocide; reacting polyethylene glycol, alkyl aryl sulfonate and iodine water-propylene glycol solvent refluxing – expired April 2008
4. Thermal-resistant microbial agent ("Cloronine") – expired December 2008
5. Use of Clorpactin for the treatment of animal mastitis & the applicator used in that treatment (owned jointly by the Company and JohnsonDiversey Inc.) – expired December 2008

The Company does not believe that the expiration of any of these patents will have a material impact on the Company's revenues.

Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The common stock of United has traded on The NASDAQ Stock Market LLC (“NASDAQ”) 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, it was traded on the NYSE Amex stock exchange under the same symbol. Prior to December 1, 2008 its stock traded on the American Stock Exchange under the same symbol.

The following table sets forth for the periods indicated the high and low closing sale prices of the shares of common stock, as reported by the AMEX Market Statistics for the period January 1, 2007 to December 31, 2008. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		Year Ended December 31, 2008		Year Ended December 31, 2007	
		High	Low	High	Low
First	(1/1 - 3/31)	$ 10.90	$ 9.92	$ 9.45	$ 8.54
Second	(4/1 - 6/30)	12.75	10.08	13.35	9.23
Third	(7/1 - 9/30)	12.15	10.00	14.60	8.75
Fourth	(10/1 - 12/31)	10.44	7.60	10.85	10.05

Holders of Record

As of March 1, 2009, there were 1,025 holders of record of Common Stock.

Cash Dividends

On May 14, 2008, the Company’s Board of Directors declared a semi-annual cash dividend of $0.27 per share, which was paid on June 16, 2008 to all stockholders of record as of June 2, 2008. On December 3, 2008, the Company’s Board of Directors declared a cash dividend of $0.28 per share, which was paid on January 5, 2009 to all stockholders of record as of December 15, 2008.

On May 16, 2007, the Company’s Board of Directors declared a semi-annual cash dividend of $0.27 per share, which was paid on June 15, 2007 to all stockholders of record as of June 1, 2007. On December 6, 2007, the Company’s Board of Directors declared a cash dividend of $0.28 per share, which was paid on January 7, 2008 to all stockholders of record as of December 17, 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
United-Guardian, Inc.

We have audited the accompanying consolidated balance sheets of United-Guardian, Inc. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include 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 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 consolidated financial position of United-Guardian, Inc. and subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their consolidated cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note F to the consolidated financial statements, effective December 31, 2007, the Company curtailed and froze benefits under its defined benefit pension plan.

/s/ EISNER LLP
New York, New York
March 19, 2009

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Upon written request, a copy of the Company's most recent Annual Report on Form 10-K will be furnished without charge. A fee will be charged for copies of any exhibits attached to such report. Contact: Corporate Secretary, United-Guardian, Inc., P.O. Box 18050, Hauppauge, NY 11788

PLEASE NOTE: This document contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements about the company's expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters, are being made in reliance upon the "safe harbor" provisions of that Act. Such statements are subject to a variety of factors that could cause our actual results or performance to differ materially from the anticipated results or performance expressed or implied by such forward-looking statements. For further information about the risks and uncertainties that may affect the company's business please refer to the company's reports and filings with the Securities and Exchange Commission.

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United-Guardian, Inc.

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