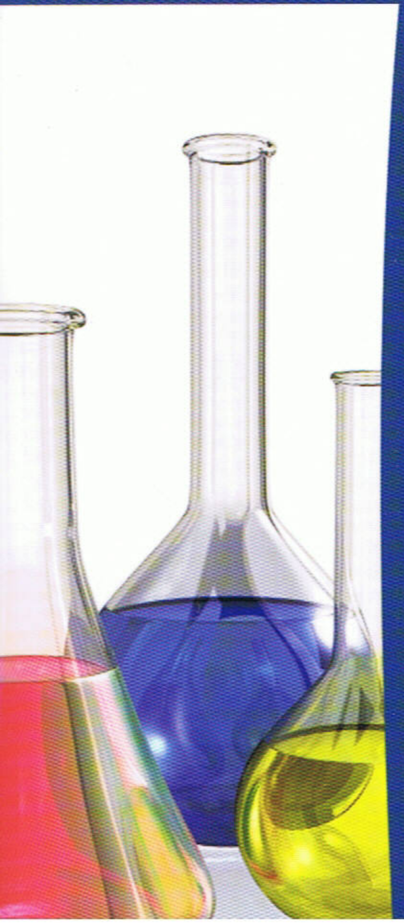

United-Guardian, Inc.

Excellence through innovation®

COSMETIC INGREDIENTS

PERSONAL & HEALTH CARE PRODUCTS

PHARMACEUTICALS

SPECIALTY INDUSTRIAL PRODUCTS

2009 ANNUAL REPORT

UNITED-GUARDIAN, INC.

Officers and Directors

KENNETH H. GLOBUS
President & Principal Executive Officer,
Chairman of the Board of Directors,
General Counsel

ROBERT S. RUBINGER
Executive Vice President, Secretary,
Chief Financial Officer, Director of Product Development, and Director

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
Production Supervisor

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 (business consulting firm)

CHRISTOPHER W. NOLAN, SR.
Director; Managing Director, Mergers & and 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 The company's products are developed and manufactured by its 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 and other medical products, which incorporate them into their finished products and distribute them to hospitals, pharmacies, and other health care facilities. The specialty industrial products are sold directly, primarily to manufacturers in a wide range of industries.

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

Over the years the company has been issued over 32 patents, and there are currently additional patents pending. It has also received ISO 9001:2008 registration from Underwriters Laboratories, Inc., indicating that its documented procedures and overall operations have attained the very high level of quality needed for this certification level.

2009 ANNUAL REPORT

to the Stockholders of

UNITED-GUARDIAN, INC.

April 13, 2010

Dear Stockholder,

I am pleased to report that FY-2009 was another excellent year for us, with both sales and earnings reaching record levels. Our ability to achieve this despite the very difficult global economic conditions that persisted during 2009 makes me especially proud of our accomplishment.

Sales for the year reached a new high of $13,276,984 compared with $12,292,147 in 2008, an increase of 8%. Even more significant was the growth in our net income, which increased by 23% and reached a record $3,878,963 ($0.78 per share), compared with $3,162,931 ($0.64 per share) in 2008. Some of the increase in revenue was due to price increases, but that would not have had as significant an impact had we not been able to keep our costs in check as well. This was true not only for raw material costs, but also for administrative and overhead costs. One example of this is our cost of sales as a percentage of sales, which declined from 44% in 2008 to 40% in 2009.

Most of the increase in volume that we experienced in 2009 was the result of increased sales of our non-pharmaceutical medical products, such as our medical lubricants. Some of this was the result of fluctuations in customer buying patterns, but there was also a significant increase in demand. Part of that increase came from growth in sales of a product that we have been selling for many years to a customer whose product line was acquired by a major global pharmaceutical company. We are now anticipating that additional resources are going to be put behind the marketing of that product, resulting, hopefully, in an increase in our sales to that customer in the coming years.

Sales of our cosmetic ingredients to International Specialty Products, Inc., our largest marketing partner, increased by about 12% last year compared with 2008. That increase was partially offset by a decline in sales of those products to our other European marketing partners. This was consistent with the overall sales decline that the industry experienced in Europe in 2009 for personal care products. Early indications from our European distributors are that they anticipate a gradual increase in sales this year, so we are hopeful that we will start to see improved sales into that part of the world as the year progresses.

As far as our financial condition is concerned, our balance sheet continues to grow stronger, with total assets increasing by $1.4 million from $17.3 million to $18.7 million, while liabilities increased only $400,000 from $2.6 million to $3.0 million. As a result, stockholders' equity increased by approximately $1 million from $14.7 million to $15.7 million. In addition, we ended the year with a very strong 6.0 to 1 current ratio, down slightly from the 6.2 to 1 in 2008 due to the higher dividend declared at the end of 2009.

As a result of the excellent year we had in 2009, the Board of Directors declared a record-high semi-annual dividend of $0.32 per share in December 2009, which was up from the $0.28 per share that was declared in December 2008, an increase of 14%. That brought the dividends declared in 2009 to $0.60 per share, which, at the current share price, is a yield of approximately 5%. This was the 14th consecutive year that we have paid a year-end dividend, and we are pleased that we have been able to maintain, and even increase, our dividend at a time when so many other companies have been struggling just to survive. We are hopeful that we will be able to maintain this policy of sharing the company's success with our shareholders.

We are continuing our efforts to enhance our product lines and expand our marketing efforts. One of our strategies over the past few years was to retain marketing consultants to help us develop new markets for our products, but this yielded disappointing results. We believe that there were two main reasons for their lack of success. First, both of the consultants we had retained had to abandon their efforts on our behalf before they were completed when their own personal financial situations required them to give up their independent consulting efforts. If that had been the only obstacle to their success we would have looked for another consultant to continue their work, but they had also discovered that reaching the decision-makers in large companies had become increasingly more difficult and frustrating. They could not get beyond a certain point with many of the large companies that we had hoped would be interested in our products. For that reason, we felt that it was not going to be worthwhile to hire another consultant who would just encounter the same obstacles.

Ironically, the main reason for retaining these consultants was to expand the market for our medical products, in particular the medical lubricants, and this past year saw a significant increase in sales of those products despite the failure of our consultants to make any real progress. It is our belief that the ability of prospective customers to locate products like ours using the internet has made it much easier for our medical products to be noticed by prospective customers. For that reason, continuing to hire consultants for this purpose may not be the most productive use of our resources. We believe that we now have a reputation in the marketplace for developing high quality medical lubricants, and that with the availability of this information on the internet our products now receive exposure that in the past would only have been possible with additional marketing efforts. While we certainly are not foreclosing the possibility of using other marketing resources for these products in the future, for now we are confident that even without the use of outside marketing consultants we will be able to continue to expand this growing line of products.

In regard to our cosmetic ingredients line, in April of last year we introduced a number of new products to our marketing partners at the In-Cosmetics show in Munich. All of these products were discussed in detail in my annual report to stockholders last year, so there is no need to discuss them again now. Since that time we have put a lot of our R&D resources into preparing for the marketing of these products, by developing marketing materials, performing stability studies, preparing sample formulations, and working with our marketing partners to develop marketing strategies. All of this work was designed to assist our marketing partners in successfully marketing these new products. While it has always been our goal to try to introduce at least one new product each year, in this case we felt that it would be better to put our R&D resources into providing our marketing partners with as much marketing support as we could for these products, rather than moving on to the next project prematurely. Hopefully this will better enable them to successfully introduce these products to their customers.

That doesn't mean, however, that we are not working on new products. We are continuing to explore new opportunities for products in the area of cosmetic ingredients, while at the same time working to expand our growing line of medical products. While it is always a challenge to develop new products that are unique in the marketplace, with the expansion of our R&D department last year we are optimistic that we will be able to continue to develop new and exciting products to introduce into our global marketing network. Based on first quarter sales-to-date we are excited about the coming year, and will continue to keep our stockholders updated on our continuing marketing efforts. We are very pleased with the results from last year, and look forward to another successful and profitable year in 2010.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31, 2009	2008
Net sales	$ **13,276,984**	$ 12,292,147
Costs and expenses		
Cost of sales	**5,324,257**	5,411,404
Operating expenses	**2,608,478**	2,698,671
	7,932,735	8,110,075
Income from operations	**5,344,249**	4,182,072
Other income (expense)		
Investment income	**395,261**	492,443
Gain (loss) on sale of assets	**420**	(7,763)
	395,681	484,680
Income from operations before income taxes	**5,739,930**	4,666,752
Provision for income taxes	**1,860,967**	1,503,821
Net income	$ **3,878,963**	$ 3,162,931
Earnings per common share (basic and diluted)	$ **.78**	$ .64
Weighted average shares (basic and diluted)	**4,946,439**	4,946,439

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31, 2009	December 31, 2008
Current assets		
Cash and cash equivalents	$ **5,021,073**	$ 3,425,538
Certificates of deposit	**1,014,866**	812,952
Marketable securities	**8,438,757**	8,239,183
Accounts receivable, net of allowance for doubtful accounts of $27,000 in 2009 and $30,000 in 2008	**1,364,886**	1,381,012
Inventories (net)	**1,153,134**	1,344,579
Prepaid expenses and other current assets	**220,815**	226,330
Deferred income taxes	**443,034**	355,798
Total current assets	**17,656,565**	15,785,392
Certificates of deposit, due 2010	**---**	271,976
Property, plant, and equipment		
Land	**69,000**	69,000
Factory equipment and fixtures	**3,302,967**	3,288,808
Building and improvements	**2,541,115**	2,431,908
Waste disposal plant	**133,532**	133,532
	6,046,614	5,923,248
Less accumulated depreciation	**5,099,903**	4,971,269
Net property, plant, and equipment	**946,711**	951,979
Other assets		
Pension asset	**---**	123,589
Other	**113,016**	150,687
Total other assets	**113,016**	274,276
Total assets	$ **18,716,292**	$ 17,283,623

See Notes to Financial Statements

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2009	2008
Current liabilities		
Dividends payable	$ **1,582,860**	$ 1,385,003
Accounts payable	**322,325**	187,810
Loans payable, current portion	**----**	6,657
Accrued expenses	**819,194**	969,242
Pension liability	**108,892**	---
Income taxes payable	**87,403**	---
Total current liabilities	**2,920,674**	2,548,712
Deferred income taxes	**138,007**	28,616
Contingencies (Note H)		
Stockholders' equity		
Common stock, $.10 par value; 10,000,000 shares authorized; 5,008,639 shares issued and 4,946,439 shares outstanding in 2009 and 2008	**500,864**	500,864
Capital in excess of par value	**3,819,480**	3,819,480
Accumulated other comprehensive loss	**(345,992)**	(386,208)
Retained earnings	**12,042,889**	11,131,789
Treasury stock, at cost; 62,200 shares	**(359,630)**	(359,630)
Total stockholders' equity	**15,657,611**	14,706,295
Total liabilities and stockholders' equity	$ **18,716,292**	$ 17,283,623

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2009 and 2008

	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, January 1, 2008	5,008,639	$ 500,864	$3,819,480	$ (120,018)	$ 10,689,400	$ (359,630)	$14,530,096	
Adjustment for pension termination, 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	
Adjustment for pension termination, net of deferred income tax benefit of $84,319				**(158,954)**			**(158,954)**	**$ (158,954)**
Change in unrealized loss on marketable securities, net of deferred income tax benefit of $105,651				**199,170**			**199,170**	**199,170**
Net income					**3,878,963**		**3,878,963**	**3,878,963**
Dividends declared					**(2,967,863)**		**(2,967,863)**	
Comprehensive income								**$ 3,919,179**
Balance, December 31, 2009	**5,008,639**	**$ 500,864**	**$3,819,480**	**$ (345,992)**	**$ 12,042,889**	**$ (359,630)**	**$15,657,611**	

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2009	2008
Cash flows from operating activities		
Net income	**$ 3,878,963**	$ 3,162,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**178,691**	200,804
Net (gain) loss on sale of equipment	**(420)**	7,763
Realized loss on sale of marketable securities	**5,226**	---
Provision for bad debts	**(2,627)**	10,684
Deferred income taxes	**822**	(105,032)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	**18,753**	(113,310)
Inventories	**191,445**	(156,357)
Prepaid expenses and other current and non-current assets	**5,515**	161,452
Accounts payable	**134,515**	64,520
Accrued pension costs	**(10,791)**	(9,288)
Accrued expenses and taxes payable	**(62,644)**	170,985
Net cash provided by discontinued operations	**---**	17,233
Net cash provided by operating activities	**4,337,448**	3,412,385
Cash flows from investing activities		
Acquisition of plant and equipment	**(155,331)**	(177,465)
Proceeds from the sale of plant and equipment	**20,000**	7,988
Purchase of temporary investments	**---**	(529,099)
Purchase of marketable securities	**(1,034,981)**	(2,965,129)
Proceeds from sale of marketable securities	**1,135,000**	1,850,000
Proceeds from maturities of certificates of deposit	**70,062**	---
Net cash provided by (used in) investing activities	**34,750**	(1,813,705)
Cash flows from financing activities		
Payment of long term debt	**(6,657)**	(7,988)
Dividends paid	**(2,770,006)**	(2,720,542)
Net cash used in financing activities	**(2,776,663)**	(2,728,530)
Net increase (decrease) in cash and cash equivalents	**1,595,535**	(1,129,850)
Cash and cash equivalents, beginning of year	**3,425,538**	4,555,388
Cash and cash equivalents, end of year	**$ 5,021,073**	$ 3,425,538

See Notes to 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 96% and 95% of revenue for the years ended December 31, 2009 and December 31, 2008, respectively. LUBRAJEL accounted for 78% and 77% of revenue for the years ended December 31, 2009 and December 31, 2008, respectively, and RENACIDIN accounted for 18% of revenue in both of the years ended December 31, 2009 and December 31, 2008.

FASB Accounting Standards Codification

The issuance by the FASB of the Accounting Standards Codification (the “Codification” or “ASC”) on July 1, 2009 (effective for interim or annual reporting periods ending after September 15, 2009), changes the way that generally accepted accounting principles (“GAAP”) is referenced. Beginning on that date, the Codification officially became the single source of authoritative nongovernmental GAAP; however, SEC registrants must also consider rules, regulations, and interpretive guidance issued by the SEC or its staff. The change affects the way the Company refers to GAAP in financial statements and in its accounting policies. All existing standards that were used to create the Codification became superseded. Instead, references to standards consist solely of the number used in the Codification’s structural organization.

Subsequent Events

In May 2009, the FASB issued guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company has considered subsequent events for recognition or disclosure through the date of this filing in preparing the financial statements and notes thereto.

Accounts Receivable and Reserves

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

Revenue Recognition

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

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

Cash and Cash Equivalents

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

Dividends

On May 13, 2009, the Company's Board of Directors declared a semi-annual cash dividend of $0.28 per share (aggregating $1,385,003) that was paid on June 15, 2009 to all stockholders of record as of June 1, 2009. On December 2, 2009, the Company's Board of Directors declared a cash dividend of $0.32 per share (aggregating $1,582,860) that was paid on January 4, 2010 to all stockholders of record as of December 18, 2009.

On May 14, 2008, the Company's Board of Directors declared a semi-annual cash dividend of $0.27 per share (aggregating $1,335,539) that 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 (aggregating $1,385,003) that was paid on January 5, 2009 to all stockholders of record as of December 15, 2008.

Supplemental Disclosures of Non-cash Investing and Financing Activities

Cash payments for income taxes were $1,783,120 and $1,425,382 for the years ended December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, the Company had the following non-cash investing and financing activities:

	2009	2008
Dividends declared but not paid in fiscal year	$ **1,582,860**	$ 1,385,003

Marketable Securities and Certificates of Deposit

Marketable securities include investments in equity mutual funds, government securities and corporate bonds, all of which have a high degree of liquidity, are classified as "Available for Sale" securities, and are reported at their fair values. Unrealized gains and losses on "Available for Sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on sales of investments and declines in value judged to be other than temporary, if any, are reported in other income with cost being determined on a specific identification basis. Fair values are based on quoted market prices. The Company evaluates its investments periodically for possible impairment and reviews factors such as the length of time and extent to which fair value has been below cost basis and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value.

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 fair value, which approximates cost.

Inventories

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

Property, Plant and Equipment

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

Estimated useful lives are as follows:

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

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments were necessary at December 31, 2009 and 2008.

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

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.

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, 2009, two customers, both of them distributors and marketing partners of the Company, accounted for a total of approximately 52% of the Company’s revenues, and one of those customers accounted for approximately 54% of the Company’s outstanding accounts receivable at year end. For the year ended December 31, 2008, those same two customers accounted for a total of 54% of the Company’s revenues and 52% 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.

Vendor Concentration

The principal raw materials used by the Company consist of common industrial organic and inorganic chemicals. Most of these materials are available in ample supply from numerous sources. The Company has five major raw material vendors that account for approximately 78% of the raw material purchases by the Company.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized

Uncertain tax positions are accounted for utilizing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of December 31, 2009 and 2008, the Company did not have any unrecognized income tax benefits. It is the Company's policy to recognize interest and penalties related to taxes as interest expense. During the years ended December 31, 2009 and 2008 the Company did not record any interest or penalties.

Through December 31, 2007 the Company filed consolidated Federal income tax returns in the U.S. with its then-existing Eastern Chemical Corporation subsidiary, 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 2006, 2007, 2008, 2009 and by New York State for years 2006 through 2009.

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 $533,000 and $423,000 for the years ended December 31, 2009 and 2008, respectively.

Shipping and Handling Costs

Shipping and handling costs are classified in operating expenses in the accompanying statements of income. Shipping and handling costs were approximately $97,000 and $102,000 for the years ended December 31, 2009 and 2008, respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2009 and 2008 the Company incurred $28,200 and $26,200, respectively, in advertising costs.

Stock-Based Compensation

In 2004, the Company approved a stock option plan ("2004 Stock Option Plan"). 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 2009 or 2008.

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.

New Accounting Standards Adopted in Fiscal 2009

Effective January 1, 2009, the Company adopted the Financial Accounting Standards Board ("FASB") statement on the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of stockholders' equity, and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, this statement revised the accounting for both increases and decreases in a parent's controlling ownership interest. The adoption of this statement did not have an impact on the Company's financial statements.

In December 2007, the FASB issued a statement that changed the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. This statement is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. Adoption by the Company of this statement as of January 1, 2009 did not have an impact on the Company's financial statements.

In April 2009, the FASB issued a Staff Position ("FSP") that requires disclosures about fair value in interim financial statements as well as in annual financial statements. This FSP requires all entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments. This FSP is effective for interim and annual periods ending after September 15, 2009 and does not require comparative disclosure for earlier periods presented upon initial adoption. The Company adopted this FSP on its effective date and its application had no impact on the Company's financial statements.

In April 2009, the FASB issued an FSP that amends existing other-than-temporary impairment guidance for debt securities to make the guidance more operational and improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. This FSP is effective for interim and annual periods ending after June 15, 2009. The Company adopted this FSP on is effective date and its application had no impact on the Company's financial statements.

In April 2009, the FASB issued an FSP that provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. This FSP also provides additional guidance on circumstances that may indicate that a transaction is not orderly and is effective for interim and annual periods ending after June 15, 2009. The Company adopted this FSP on its effective date and its application had no impact on the Company's financial statements.

In June 2009, the FASB issued subsequent events guidance that requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. Such guidance is effective for all interim and annual periods ending after June 15, 2009. The Company adopted this guidance upon its issuance and has made the required disclosures.

New Accounting Standards Not Yet Adopted

In June 2009, the FASB issued a statement that will require more information about transfers of financial assets, eliminate the qualifying special purpose entity (QSPE) concept, change the requirements for derecognizing financial assets and require additional disclosures. This statement is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the impact that the adoption of this statement may have on its financial statements and related disclosures.

In June 2009, the FASB issued a new accounting pronouncement that amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the impact that the adoption of this guidance may have on its financial statements and related disclosures.

In January 2010, the FASB issued Accounting Standards Update 2010-06, "Improving Disclosures about Fair Value Measurements." This update requires some new disclosures and clarifies some existing disclosure requirements about fair value measurements. The majority of the provisions of this update, including those applicable to the Company, are effective for interim and annual reporting periods beginning after December 15, 2009. Early application of the provisions of this update is permitted. The Company is currently evaluating the impact this update will have on its financial statement disclosures.

NOTE B - MARKETABLE SECURITIES

The fair values of the Company's marketable securities and certificates of deposit are determined in accordance with GAAP, with fair value being defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes the three-tier value hierarchy, as prescribed by GAAP, which prioritizes the inputs used in measuring fair value as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following available-for-sale securities, which comprise all of the Company's marketable securities, are re-measured to fair value on a recurring basis and are valued using Level 1 inputs using quoted prices (unadjusted) for identical assets in active markets:

December 31, 2009	**Cost**	**Fair Value**	**Unrealized Gain/(Loss)**
Available for sale:			
U.S. treasury and agencies			
Maturities within 1 year	**$ 1,650,218**	**$ 1,659,596**	**$ 9,378**
Maturities after 1 year through 5 years	**1,108,726**	**1,124,527**	**15,801**
Total U.S. Treasury and agencies	**2,758,944**	**2,784,123**	**25,179**
Corporate bonds			
Maturities after 1 year through 5 years	**267,251**	**262,846**	**(4,405)**
Fixed income mutual funds	**5,179,005**	**5,181,990**	**2,985**
Equity and other mutual funds	**244,786**	**209,798**	**(34,988)**
	$ 8,449,986	**$ 8,438,757**	**$ (11,229)**

December 31, 2008			
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)

The fair values of the Company's certificates of deposit, which approximated cost at December 31, 2009 and 2008, were determined using Level 2 inputs. Unrealized gains and losses were not material.

Proceeds from the sale and redemption of U.S. Treasury and agency bonds amounted to $1,135,000 and $1,850,000 for the years ended December 31, 2009 and 2008, respectively. Realized gains or losses 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, 2009	December 31, 2008
Raw materials and work-in-process	$ **329,562**	$ 461,437
Finished products	**823,572**	883,142
	$ **1,153,134**	$ 1,344,579

Finished products inventories at December 31, 2009 and 2008 are stated net of a reserve of $39,000 for slow moving and obsolete items.

NOTE D – INCOME TAXES

The provision for income taxes consists of the following:

	Years ended December 31, 2009	Years ended December 31, 2008
Current		
Federal	$ **1,832,616**	$ 1,584,183
State	**27,529**	24,670
	1,860,145	1,608,853
Deferred		
Federal	**798**	(102,002)
State	**24**	(3,030)
	822	(105,032)
Total provision for income taxes	$ **1,860,967**	$ 1,503,821

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):

	2009 ($)	2009 Tax rate (%)	2008 ($)	2008 Tax rate (%)
Income taxes at statutory Federal income tax rate of 34%	$ **1,952,000**	**34**	$ 1,587,000	34
State income taxes, net of Federal benefit	**18,000**	**---**	14,000	---
Domestic Production Activities tax benefit	**(95,000)**	**(2)**	(82,000)	(2)
Nondeductible expenses	**1,000**	**---**	---	---
Prior year over-accrual	**(9,000)**	**---**	(15,000)	---
Tax exempt income	**(6,000)**	**---**	---	---
Actual income tax expense	$ **1,861,000**	**32**	$ 1,504,000	32

During 2009 and 2008, 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:

	Years ended December 31, 2009	2008
Deferred tax assets		
Current		
Accounts receivable	$ **10,398**	$ 10,398
Accrued pension liability	**179,641**	95,323
Inventories	**20,311**	21,457
Accrued expenses	**232,684**	228,620
	443,034	355,798
Deferred tax liabilities		
Non-current		
Pension asset	**(141,899)**	(138,159)
Unrealized loss on marketable Securities	**3,892**	109,543
	(138,007)	(28,616)
Net deferred tax asset	$ **305,027**	$ 327,182

NOTE E - 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 IRS. The time for the PBGC 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 in 2010.

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.

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, 2009 and 2008 are as follows:

	2009	2008
Equity securities:		
Principal Financial Group Stock Separate Account - Level 1	$ **56,931**	$ 52,212
Principal Large Cap Stock Index Separate Account - Level 1	**219,119**	173,785
Principal Medium Company Blend Separate Account - Level 1	**180,468**	135,743
Total Equity Securities	**456,518**	361,740
Debt securities:		
General Investment Account* - Level 3	**1,564,634**	1,668,662
TOTAL PLAN ASSETS	$ **2,021,152**	$ 2,030,402

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

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended December 31, 2009 and 2008:

	Years Ended December 31, 2009	2008
Balance, beginning of year	$ **1,668,662**	$ 1,826,539
Realized gains (losses)	**77,236**	88,326
Unrealized gains (losses) relating to instruments still held at reporting date	**(26,218)**	83,476
Purchases, sales, issuances and settlements (net)	**(155,046)**	(329,679)
Balance, end of year	$ **1,564,634**	$ 1,668,662

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
2010	$ 180,000
2011	79,000
2012	49,000
2013	220,000
2014	150,000
2015-2019	750,000

The Company does not plan to make contributions to the Plan in 2010.

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

	Years ended December 31, 2009	2008
Change in Benefit Obligation:		
Projected benefit obligation at beginning of year	$ **1,906,813**	$ 2,598,770
Interest cost	**113,864**	176,429
Actuarial (gain)/loss	**145,090**	(43,498)
Benefits paid	**(35,723)**	(44,654)
Effect of settlement/curtailment	**---**	(780,234)
Projected benefit obligation at end of year	$ **2,130,044**	$ 1,906,813
Change in Plan Assets:		
Fair value of Plan assets at beginning of year	$ **2,030,402**	$ 2,761,754
Actual return on Plan assets	**26,473**	16,264
Employer contributions	**---**	77,272
Benefits paid	**(35,723)**	(44,654)
Effect of settlement	**---**	(780,234)
Fair value of Plan assets at end of year	$ **2,021,152**	$ 2,030,402
Funded status at end of year - (underfunded) overfunded	$ **(108,892)**	$ 123,589
Amounts recognized in statement of financial position:		
Current liability	$ **(108,892)**	$ ---
Non-current asset	**---**	123,589
Total	$ **(108,892)**	$ 123,589
Amounts recognized in accumulated Other Comprehensive Income ("OCI"):		
Total net loss	$ **518,297**	$ 275,024
Total accumulated OCI (not adjusted for applicable tax)	$ **518,297**	$ 275,024

Weighted-average assumptions used to determine benefit obligations:				
Discount rate		**5.75%**		6.25%
Rate of compensation increase		**5.31%**		5.36%

The net periodic pension (benefit) cost includes the following components:

Components of net periodic pension (benefit) cost				
Interest cost	$	**113,864**	$	176,429
Expected return on Plan assets		**(131,315)**		(232,109)
Amortization of net actuarial loss		**6,659**		---
Effect of special events		**---**		112,552
Net periodic pension (benefit) cost	$	**(10,792)**	$	56,872
Other changes recognized in OCI				
Net loss	$	**249,932**	$	172,348
Amortization of net loss		**(6,659)**		---
Amount recognized due to special event		**---**		(112,552)
Total recognized in other comprehensive income	$	**243,273**	$	59,796
Total recognized in net periodic benefit cost and OCI	$	**232,481**	$	116,668

Weighted-average assumptions used to determine net period pension (benefit) cost				
Discount rate		**6.25%**		5.75%
Expected long-term return on Plan assets		**6.75%**		7.00%
Rate of compensation increase		**5.36%**		5.42%

401(k) Plan

The Company maintains a 401(k) plan for all of its eligible employees. Under the plan, employees may defer up to $16,500 (plus $5,500 for employees over the age of 50) of their yearly pay as a pre-tax investment in a savings plan.

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 matching contribution to a maximum of 100% of the first 4% of each employee's pay. In 2009 the Company began making additional discretionary contributions to each employee's account based on a “pay-to-pay” safe-harbor formula that qualifies the 401(k) plan under current IRS regulations.

Employees become fully vested in employer matching contributions after one year of employment. Company 401(k) matching contributions were approximately $90,000 and $91,000 for the years ended December 31, 2009 and 2008, respectively.

In addition, in December 2009 and 2008 the Company’s Board of Directors authorized discretionary contributions to the modified 401(k) plan in the amount of $175,000 per year, to be allocated among all eligible employees for the 2009 and 2008 plan years. The 2009 contribution was made in December 2009, and the 2008 contribution, which had been accrued during 2008, was made in January 2009. Employees become vested in the discretionary contributions as follows: 20% after one year of employment, and 20% for each year of employment thereafter until the employee becomes fully vested after five years of employment.

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 1993 Non-Statutory Stock Option Plan for Directors.

As of December 31, 2009 and 2008, there were no stock options outstanding.

As of December 31, 2009 and 2008, 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 share-based compensation expense during the years ended December 31, 2009 and 2008.

NOTE F - EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2009 and 2008:

	Years ended December 31,	
	2009	2008
Numerator:		
Net Income	$ **3,878,963**	$ 3,162,931
Denominator:		
Denominator for basic and diluted earnings per share (weighted average shares)	**4,946,439**	4,946,439
Basic and diluted earnings per share	$ **.78**	$ .64

NOTE G - 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 operates in one business segment. 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.

The geographic information set forth in paragraph "(b)" below is partially based on sales information provided to the Company by Customer A (shown in paragraph "(c)" below), which exclusively markets the Company's cosmetic ingredients in Canada and China, and also sells some of the Company's products into France on a non-exclusive basis along with Customer B.

(a) Net Revenues

	Years ended December 31, 2009	2008
Personal Care	$ **7,976,819**	$ 7,876,801
Pharmaceuticals	**2,823,152**	2,642,935
Medical	**2,682,739**	1,958,494
Industrial	**124,899**	106,543
	13,607,609	12,584,773
Less Discounts and allowances	**(330,625)**	(292,626)
	$ **13,276,984**	$ 12,292,147

(b) Geographic Information

	2009 Revenues	2009 Long-Lived Assets	2008 Revenues	2008 Long-Lived Assets
United States	$ **6,612,165**	$ **946,711**	$ 5,226,825	$ 951,979
Canada	**1,828,981**	**---**	1,553,940	---
China	**1,415,533**	**---**	1,204,949	---
France	**951,241**	**---**	1,347,548	---
Other countries	**2,469,064**	**---**	2,958,885	---
	$ **13,276,984**	$ **946,711**	$ 12,292,147	$ 951,979

(c) Revenue from Major Customers

	Years ended December 31, 2009	2008
Customer A	$ **6,120,001**	$ 5,478,157
Customer B	**806,047**	1,162,386
All other customers	**6,350,936**	5,651,604
	$ **13,276,984**	$ 12,292,147

NOTE H - 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 I - ACCRUED EXPENSES

Accrued expenses at December 31, 2009 and 2008 consist of:

	2009	2008
Accrued 401(k) plan contribution	$ **----**	$ 175,000
Accrued bonuses	**182,000**	170,000
Accrued distribution fees	**303,493**	213,541
Other	**333,701**	410,701
	$ **819,194**	$ 969,242

NOTE J - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2009 and 2008 the Company paid to Henry Globus, a former officer and current director of the Company, $22,296 and $21,816 respectively, for consulting services in accordance with his employment termination agreement of 1988.

During each of the years ended December 31, 2009 and 2008 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $14,500, and $10,500, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta, and Cartelli, LLP, is 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 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 and Certificates of Deposit

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 mutual funds, government securities, and corporate bonds. The Company's marketable securities and certificates of deposit 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 are determined using the specific-identification method and are insignificant for the years ended December 31, 2009 and 2008. 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 or certificates of deposit exceeds the estimated fair value of the securities and the decline in value is determined to be other-than-temporary. During 2009 the Company did not record an impairment charge regarding its investment in marketable securities or certificates of deposit 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 Operations

Year ended December 31, 2009 compared with year ended December 31, 2008

Revenue

Revenue in 2009 increased by $984,837 (8.0%) compared with 2008. 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 $116,008 (1.5%) for the year ended December 31, 2009 when compared with 2008. All of the increase was attributable to a price increase implemented in August 2008, which affected the entire year in 2009 but only 4 months in 2008. The increase in revenue that resulted from the price increase was primarily related to sales of the Company's extensive line of LUBRAJEL products.

(b) **Pharmaceuticals**: Revenue from the sales of the Company's pharmaceutical products increased by $179,035 (6.8%) for the year ended December 31, 2009 compared with 2008. This increase was due to both a price increase, which was implemented on May 1, 2009, and to an increase in volume of 3.5%.

(c) **Medical (non-pharmaceutical) products:** Revenue from the sales of the Company's non-pharmaceutical medical-related products increased $725,850 (37.0%) when compared with 2008. Approximately 70% of this increase was due to increased demand. The balance was due to normal fluctuations in customer buying patterns.

Revenue was also impacted slightly by an increase of $18,356 (17.2%) in revenue from the Company's line of specialty industrial products, and an increase of $40,361 (13.8%) in sales discounts and allowance reserves.

In the personal care market, the Company's sales to ISP, its largest marketing partner, increased by 11.7% in 2009 compared with 2008. The Company's five other marketing partners for personal care products all exhibited decreased sales in 2009 compared with 2008. The net effect was that the Company's combined sales to those five marketing partners (four of whom are in Western Europe) decreased 28.1% in 2009 compared with 2008. The Company attributes most of this decrease to a downturn in economic conditions in Western Europe, which resulted in a decrease in demand for the types of products that the Company sells.

Overall, total revenue from the sales of LUBRAJEL products to all customers increased by 9.4% in 2009 compared with 2008. Management believes that price increases accounted for all of this increase. The volume of all LUBRAJEL products sold, both for personal care and medical uses, decreased by approximately 0.9% in 2009 compared with 2008.

Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN, increased by 6.8% in 2009 compared with 2008. Approximately 3.5% of the revenue increase was due to an increase in volume.

Cost of Sales

Cost of sales as a percentage of sales in 2009 decreased to 40.1% from 44.0% in the prior year. The decrease was primarily due to a decrease in the cost of one of the Company's primary raw materials.

Operating Expenses

Operating expenses decreased by $90,193 (3.3%) in 2009 compared with the prior year. This decrease was mainly due to reductions in payroll and payroll-related costs.

Portions of the Company's operating expenses are directly attributable to the research and development that the Company performs. In 2009 and 2008, the Company incurred approximately $533,000 and $423,000, respectively, in research and development expenses, which are included in operating expenses. The additional R&D costs incurred in 2009 were primarily attributable to increases in payroll costs due to adding additional research chemists. No portion of the research and development expenses was directly paid by the Company's customers.

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 $88,999 (18.4%) for the year ended December 31, 2009, which was mainly attributable to a decrease in investment income of $97,182 in 2009. This decrease was primarily related to a decline in interest rates on 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 $420 during 2009.

Provision for Income Taxes

The provision for income taxes increased $357,146 (23.7%) in 2009 compared with 2008. This increase was mainly due to an increase in income before taxes of $1,073,178 (23%) in 2009 when compared with 2008. The Company's effective income tax rate of approximately 32% for each year is lower than the federal statutory rate of 34% primarily due to the additional tax deduction for domestic production activities.

Liquidity and Capital Resources

Working capital increased from $13,236,680 at December 31, 2008 to $14,735,891 at December 31, 2009, an increase of $1,499,211 (11.3%). The current ratio decreased to 6.0 to 1 at December 31, 2009 from 6.2 to 1 at December 31, 2008. The changes in working capital and the current ratio reflect usual fluctuations in working capital components associated with the Company's normal business activities.

Accounts receivable decreased by $16,126 in 2009 compared with 2008. The average period of time that an account receivable was outstanding was approximately forty days for both 2009 and 2008. The Company has a bad debt reserve of $27,000, and believes that the balance of its accounts receivable is fully collectable.

The Company does not maintain a line of credit with a financial institution, as management decided that the cost of maintaining the line of credit was no longer justified, since the Company had no foreseeable need for the line.

The Company generated cash from operations of $4,337,448 in 2009 compared with $3,412,385 in 2008. The increase in 2009 was primarily due to an increase in net income and a decrease in inventory, which were partially offset primarily by a decrease in accrued expenses.

Cash provided by investing activities was $34,750 for the year ended December 31, 2009 compared with $1,813,705 used for the year ended December 31, 2008. The change was mainly due to a decrease in the purchases of marketable securities in 2009.

Cash used in financing activities was $2,776,663 and $2,728,530 during the years ended December 31, 2009 and 2008, respectively. The increase was primarily due to the increase in the dividend declared in December 2008 (which was paid in January 2009) to $0.28 per share from the $0.27 per share dividend that was declared in December 2007 (and paid in January 2008). 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.

New Accounting Pronouncements

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

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

Market Information

The common stock of the Company has traded on 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 or NASDAQ, as applicable, for the period January 1, 2008 to December 31, 2009. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		**Year Ended December 31, 2009**		Year Ended December 31, 2008	
		High	**Low**	High	Low
First	(1/1 - 3/31)	**$ 10.75**	**$ 5.86**	$ 10.90	$ 9.92
Second	(4/1 - 6/30)	**9.77**	**6.66**	12.75	10.08
Third	(7/1 - 9/30)	**9.80**	**8.66**	12.15	10.00
Fourth	(10/1 - 12/31)	**12.10**	**9.40**	10.44	7.60

Holders of Record

As of March 1, 2010, there were 1008 holders of record of Common Stock.

Cash Dividends

On May 13, 2009, the Company's Board of Directors declared a semi-annual cash dividend of $0.28 per share, which was paid on June 15, 2009 to all stockholders of record as of June 1, 2009. On December 2, 2009, the Company's Board of Directors declared a cash dividend of $0.32 per share, which was paid on January 4, 2010 to all stockholders of record as of December 18, 2009.

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 semi-annual cash dividend of $0.28 per share, which was paid on January 5, 2009 to all stockholders of record as of December 15, 2008.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheet of United-Guardian, Inc. (the "Company") as of December 31, 2009, and the related statements of income, stockholders' equity and cash flows for the year 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 audit.

We conducted our audit 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 audit 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 audit provides 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, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Holtz Rubenstein Reminick LLP
Melville, New York
March 23, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
United-Guardian, Inc.

We have audited the accompanying balance sheet of United-Guardian, Inc. (the “Company”) as of December 31, 2008, and the related statements of income, stockholders’ equity and cash flows for the year 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 audit.

We conducted our audit 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit includes 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 audit provides 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, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note E to the 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

UNITED-GUARDIAN, INC.

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

Auditors
Holtz Rubenstein Reminick LLP
Melville, NY

Legal Counsel
Farrell Fritz, P.C.
Uniondale, NY

Main Office and Plant
230 Marcus Blvd. ● Hauppauge, NY 11788

Mailing Address
P.O. Box 18050 ● Hauppauge, NY 11788

Tel: (631) 273-0900 ● (800) 645-5566 ● Fax: (631) 273-0858 ● web site: www.u-g.com

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.

230 Marcus Boulevard
P.O. Box 18050
Hauppauge, New York 11788
Tel. (631) 273-0900
Fax. (631) 273-0858
www.u-g.com

United-Guardian, Inc.

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