2010

ANNUAL REPORT

COSMETIC INGREDIENTS

PERSONAL & HEALTH CARE PRODUCTS

PHARMACEUTICALS

SPECIALTY INDUSTRIAL PRODUCTS

UNITED-GUARDIAN, INC.

EXCELLENCE THROUGH INNOVATION®

UNITED-GUARDIAN, INC.

Officers and Directors

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

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

JOSEPH J. VERNICE
Vice President
Manager of Research & Development
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 &
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.

2010 ANNUAL REPORT

to the Stockholders of

UNITED-GUARDIAN, INC.

April 15, 2011

Dear Stockholder,

Once again I am pleased to report that we had another record year, reaching new highs in both sales and earnings per share. Sales set a new company record of $13,723,074, which was a 3.4% increase over the $13,276,984 in sales in 2009. Even though earnings after taxes were down slightly due to a one-time pension termination expense that we incurred in the second quarter of the year (see below), earnings per share actually increased from $0.78 in 2009 to $0.80 in 2010 due to fewer shares being outstanding this year.

While the increase in earnings may have only been $0.02 per share, it is important to note that we managed to do this despite the fact that in the second quarter of 2010 we incurred a one-time expense of approximately $850,000 in connection with the termination of our defined benefit pension plan. This resulted in a $0.12 per share reduction in our second quarter after-tax earnings. Had it not been for that one-time expense, our earnings for the year would have been approximately $0.92 per share, which would have been an increase of 18% over last year. Now that we no longer have the financial and reporting burden of that defined benefit pension plan, our future pension plan administrative costs are going to be significantly reduced, so over time we will certainly benefit from having terminated this plan, even if it did negatively impact our financial results this year.

On another positive note, sales of our personal care products, including our cosmetic ingredients, increased by about 5% this year, despite the continuing weakness in the global economy. Most of that increase came from sales to some of our European marketing partners, as well as to our marketing partner in Korea. We believe that the improving economies in those areas, along with the resultant increase in demand for personal care and cosmetic products, accounted for the increase. Sales of these products in 2010 to our largest marketing partner, International Specialty Products ("ISP"), were down by approximately 4%, but we believe that this was due more to the timing of orders rather than any decline in business. This is supported by the fact that ISP's sales of our products to its customers were up by about 14% for the year.

On the pharmaceutical side, sales were down about 4%, primarily due to our inability to fill all of the orders for our Renacidin® Irrigation product. This product has been manufactured for us by one of the country's largest pharmaceutical companies. The manufacturing facility that had been producing the product for us for the past four years had to suspend all of its production due to regulatory issues that were brought to its attention by the Food and Drug Administration ("FDA"). Although the issues cited by the FDA did not affect the quality of our product, the supplier was not allowed to resume production until it complied with the FDA's requirements, one of which was to re-validate the manufacturing processes of all of the products made in that facility. As a result, four batches of product that we expected to receive in 2010 were not produced, and we were forced to start allocating product to customers in November, resulting in a loss of about 60% of Renacidin sales for those months. This continued until the beginning of February, when we ran out of product completely.

That manufacturing facility is now back up and running and they are in the process of re-validating our product. The current schedule calls for production of Renacidin to resume in April, and if that happens we will receive product by the end of May. We also received permission in March from the FDA to sell a batch of product that had been manufactured in 2009 but was never released to us for sale due to some issues that came up during the manufacturing process. We were able to confirm that the batch met all specifications, and as a result the FDA approved its sale. We received that batch in house on March 18th, and have now begun selling the product again, albeit on allocation once again. We are hopeful that by allocating orders we will be able to make this batch last until sometime in May, which is when we hope to have the new production in house, at which time we can begin once again filling all orders.

We are currently estimating that we lost approximately $150,000 in gross sales of Renacidin in 2010, and expect to lose another $400,000 in gross sales by the time sales can resume completely. We have already notified the supplier that we intend to hold it responsible for all losses incurred by us in connection with its failure to supply product to us in accordance with our supply agreement. We plan to address this issue with them once full production has resumed and we have a more precise estimate of our damages.

As a result of our continuing strong sales and earnings, the Board of Directors declared dividends totaling $0.63 in 2010, with $0.30 having been declared in May 2010, and $0.33 declared in December 2010. This is an increase of $0.03 per share (5%) compared with the $0.60 in dividends that the Board declared in 2009. This is the 15th consecutive year that we have paid a dividend, and once again we are very pleased to be able to share our success with our stockholders. We continue to believe that our payment of dividends is one of the reasons investors continue to be interested in our company, and why our stock price has held up as well as it has.

In regard to new product development, we have continued to focus our development efforts on new and unique products for the personal care market, since we believe that is where our expertise is the greatest and where there is the most potential for future growth. We are continuing to work with our marketing partners to come up with ideas for new products. The most exciting area of our current development efforts is in connection with the development of an all-natural form of Lubrajel. The Lubrajel line continues to be our most important and successful line of products, and we believe that the demand for natural products will continue to increase. We believe that a natural form of Lubrajel would have excellent marketing potential. We expect those development efforts to continue throughout this year, and hope to have new products ready for marketing next year. We are also working with a global medical products company that currently buys one of our medical lubricants and is working with us to develop a new medical lubricant for them.

Our other significant event in terms of new product development has been our UNITWIX II. Development work on this product was completed earlier this year. The product is an alternative formulation of our existing Unitwix product, which is a cosmetic additive used as a thickener for oils and oil-based liquids. We have a number of customers for the original formulation of this product, one of which is one of the largest global cosmetic companies. Unfortunately, our raw material costs for this product have risen so dramatically over the last few years that it was becoming prohibitively expensive for our customers. We felt it was important for the future of the product to develop a new formulation that would be less expensive, thereby enabling us to market it at a substantially lower price than the current formulation while at the same time giving us a substantially higher profit margin. Although this product does not currently contribute much to our overall revenue, we are hopeful that the new formulation, at its much lower price, will enable us to increase sales by bringing in new customers for which the previous formulation was not practical due to the high cost. We have just started sampling this new product to customers, and expect to get feedback over the next few months.

I do have one disappointing note in an otherwise very successful year. Natramul, our new natural polymer blend, which I have discussed in previous stockholders letters, did not prove to have the marketing potential that we thought it might due to its high cost. Although we still believe it is an excellent product, the feedback from our marketing partners was that although there is a need in the market for a natural product like ours, at the current time its relatively high price will make it uncompetitive in the marketplace. So for the time being this product is being shelved and we will concentrate our efforts on products that we believe will have greater market potential.

We are also putting new efforts into pursuing joint development projects with other companies. Although we have an excellent group of research chemists, we believe that in order to expand our product offerings it would be in our best interests to enlist the aid of other companies that can bring to the table new ideas, technologies, and expertise that would have synergies with our own. This effort will include International Specialty Products, our largest marketing partner, as well another global chemical company that has approached us about working with them using some of their products. We are hopeful that this will enable us to develop products that we might not be able to develop on our own.

Overall we are very pleased with last year's financial results, and are optimistic that with more aggressive marketing and development efforts we will be able to continue to expand the marketing of our products and bring new and exciting products to the marketplace, both in the areas of personal care products and medical lubricants. We are looking forward to working with both new and existing partners to continue to increase sales, and hope to continue to share our success with our stockholders in the years to come.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31,	
	2010	2009
Net sales	$ **13,723,074**	$ 13,276,984
Costs and expenses:		
Cost of sales	**5,250,121**	5,324,257
Operating expenses	**2,567,395**	2,608,478
Pension plan termination	**847,744**	---
	8,665,260	7,932,735
Income from operations	**5,057,814**	5,344,249
Other income:		
Investment income	**455,786**	395,261
Gain on sale of assets	**---**	420
	455,786	395,681
Income from operations before income taxes	**5,513,600**	5,739,930
Provision for income taxes	**1,713,908**	1,860,967
Net income	$ **3,799,692**	$ 3,878,963
Earnings per common share (basic and diluted)	$ **.80**	$ .78
Weighted average shares (basic and diluted)	**4,738,357**	4,946,439

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents	$ **1,514,589**	$ 5,021,073
Certificates of deposit	**---**	1,014,866
Marketable securities	**8,314,403**	8,438,757
Accounts receivable, net of allowance for doubtful accounts of $23,000 in 2010 and $27,000 in 2009	**1,090,711**	1,364,886
Inventories (net)	**1,321,389**	1,153,134
Prepaid expenses and other current assets	**148,240**	220,815
Prepaid income taxes	**182,575**	---
Deferred income taxes	**218,328**	443,034
Total current assets	**12,790,235**	17,656,565
Property, plant, and equipment:		
Land	**69,000**	69,000
Factory equipment and fixtures	**3,650,283**	3,302,967
Building and improvements	**2,618,253**	2,541,115
Waste disposal plant	**133,532**	133,532
	6,471,068	6,046,614
Less accumulated depreciation	**5,261,908**	5,099,903
Net property, plant, and equipment	**1,209,160**	946,711
Other assets	**75,344**	113,016
Total assets	$ **14,074,739**	$ 18,716,292

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2010	2009
Current liabilities:		
Dividends payable	$ **---**	$ 1,582,860
Accounts payable	**208,244**	322,325
Accrued expenses	**815,996**	819,194
Pension liability	**---**	108,892
Income taxes payable	**---**	87,403
Total current liabilities	**1,024,240**	2,920,674
Deferred income taxes	**3,626**	138,007
Contingencies (Note G)		
Stockholders' equity:		
Common stock, $.10 par value; 10,000,000 shares authorized; 4,596,439 and 5,008,639 shares issued and 4,596,439 and 4,946,439 shares outstanding in 2010 and 2009, respectively	**459,644**	500,864
Capital in excess of par value	**---**	3,819,480
Accumulated other comprehensive income (loss)	**6,835**	(345,992)
Retained earnings	**12,580,394**	12,042,889
Treasury stock, at cost: 0 and 62,200 shares as of December 31, 2010 and 2009, respectively.	**---**	(359,630)
Total stockholders' equity	**13,046,873**	15,657,611
Total liabilities and stockholders' equity	$ **14,074,739**	$ 18,716,292

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2010 and 2009

	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, 2009	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	
Adjustment for pension termination, net of deferred income tax benefit of $179,641				338,655			338,655	338,655
Change in unrealized loss on marketable securities, net of deferred income tax of $7,518				14,172			14,172	14,172
Acquisition of treasury stock						(3,762,500)	(3,762,500)	
Retirement of treasury stock	(412,200)	(41,220)	(3,819,480)		(261,430)	4,122,130	---	
Net income					3,799,692		3,799,692	3,799,692
Dividends declared					(3,000,757)		(3,000,757)	
Comprehensive income								$ 4,101,519
Balance, December 31, 2010	4,596,439	$459,644	$ ---	$ 6,835	$ 12,580,394	$ ---	$ 13,046,873	

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net income	$ **3,799,692**	$ 3,878,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**229,777**	178,691
Net (gain) on sale of equipment	**---**	(420)
Realized (gain) loss on sales of marketable securities	**(39,958)**	5,226
Realized loss on pension termination	**338,655**	---
Reduction in allowance for bad debts	**(4,678)**	(2,627)
Deferred income taxes	**82,807**	822
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	**278,853**	18,753
Inventories	**(168,255)**	191,445
Prepaid expenses and other current and non-current assets	**(59,000)**	5,515
Accounts payable	**(114,082)**	134,515
Accrued pension costs	**---**	(10,791)
Accrued expenses and taxes payable	**(141,601)**	(62,644)
Pension liability	**(108,892)**	---
Net cash provided by operating activities	**4,093,318**	4,337,448
Cash flows from investing activities:		
Acquisitions of plant and equipment	**(454,554)**	(155,331)
Proceeds from the sale of plant and equipment	**---**	20,000
Purchases of marketable securities	**(6,323,425)**	(1,034,981)
Proceeds from sales of marketable securities	**6,509,428**	1,135,000
Net change in certificates of deposit	**1,014,866**	70,062
Net cash provided by investing activities	**746,315**	34,750
Cash flows from financing activities:		
Acquisition of treasury stock	**(3,762,500)**	---
Payment of long term debt	**---**	(6,657)
Dividends paid	**(4,583,617)**	(2,770,006)
Net cash used in financing activities	**(8,346,117)**	(2,776,663)
Net (decrease) increase in cash and cash equivalents	**(3,506,484)**	1,595,535
Cash and cash equivalents, beginning of year	**5,021,073**	3,425,538
Cash and cash equivalents, end of year	$ **1,514,589**	$ 5,021,073

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

NOTES TO FINANCIAL STATEMENTS

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

Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories Division, 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 96% of revenue for the years ended December 31, 2010 and December 31, 2009, respectively. LUBRAJEL accounted for 78% of revenue for the years ended December 31, 2010 and December 31, 2009, and RENACIDIN accounted for 17% and 18% of revenue for the years ended December 31, 2010 and December 31, 2009, respectively.

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.

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 12, 2010, the Company's Board of Directors declared a semi-annual cash dividend of $0.30 per share, which was paid on June 11, 2010 to all stockholders of record as of May 27, 2010. On December 1, 2010, the Company's Board of Directors declared a semi-annual cash dividend of $0.33 per share, which was paid on December 27, 2010 to all stockholders of record as of December 15, 2010.

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.

Supplemental Disclosures of Non-cash Investing and Financing Activities

Cash payments for income taxes were $2,082,395 and $1,783,120 for the years ended December 31, 2010 and 2009, respectively.

For the years ended December 31, 2010 and 2009, the Company had the following non-cash investing and financing activities:

	2010	2009
Dividends declared but not paid in fiscal year	$ ---	$ 1,582,860

On May 29, 2010 the Company retired 350,000 shares of stock that it purchased from Kenneth H. Globus, the Company's President and largest stockholder (see Note I). On June 9, 2010 the Company retired the 62,200 shares of its stock which it previously held as treasury stock.

Marketable Securities and Certificates of Deposit

Marketable securities include investments in equity and fixed income 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, 2010 and 2009.

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.

For the year ended December 31, 2010, two customers, both of them distributors and marketing partners of the Company, accounted for a total of approximately 53% of the Company's revenues, and one of those customers accounted for approximately 31% of the Company's outstanding accounts receivable at year end. For the year ended December 31, 2009, these same two customers accounted for a total of 52% of the Company's revenues and 54% of the Company's outstanding accounts receivable at year end.

Vendor Concentration

The principal raw materials used by the Company consist of common industrial organic and inorganic chemicals. Most of these materials are available in ample supply from numerous sources. The Company has five major raw material vendors that account for approximately 89% and 78% of the raw material purchases by the Company in 2010 and 2009, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit 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 financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of December 31, 2010 and 2009, 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, 2010 and 2009 the Company did not record any interest or penalties.

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 and the State of New York for years 2007 through 2010.

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 $596,000 and $533,000 for the years ended December 31, 2010 and 2009, 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 $112,000 and $97,000 for the years ended December 31, 2010 and 2009, respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2010 and 2009 the Company incurred $8,800 and $28,200, 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.

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 2010

In February 2010, the Financial Accounting Standards Board ("FASB") amended its authoritative guidance related to subsequent events to alleviate potential conflicts with current United States Securities and Exchange Commission ("SEC") guidance. Effective immediately, these amendments remove the requirement that an SEC filer disclose the date through which it has evaluated subsequent events. The adoption of this guidance did not have a material impact on the Company's financial statements.

In January 2010, the FASB issued authoritative guidance that will require entities to make new disclosures about recurring or non-recurring fair-value measurements of assets and liabilities, including 1) the amounts of significant transfers, 2) the reasons for any transfers in or out of Level 3, and 3) information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair-value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation of assets and liabilities, and information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair-value measurements. Except for certain detailed Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years, the new guidance became effective for the Company's fiscal 2010 first quarter. The Company did not have transfers of assets and liabilities in or out of Level 1 and Level 2 fair-value measurements and does not have assets and liabilities requiring Level 3 fair-value measurements. The adoption of this disclosure-only guidance is included in Note B – Marketable Securities and did not have an impact on the Company's financial results.

In August 2009, the FASB issued authoritative guidance to provide clarification on measuring liabilities at fair value when a quoted price in an active market is not available. In these circumstances, a valuation technique should be applied that uses either the quote of the liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique consistent with existing fair-value measurement guidance, such as an income approach or a market approach. The new guidance also clarifies that, when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This guidance became effective for the Company's fiscal 2010 first quarter and did not have an impact on the Company's financial statements.

In June 2009, the FASB issued authoritative guidance that requires more information about transfers of financial assets, eliminates the qualifying special purpose entity ("QSPE") concept, and changes the requirements for derecognizing financial assets and require additional disclosures. This guidance became effective for the Company's fiscal 2010 first quarter and did not have an impact of the Company's financial statements.

In June 2009, the FASB issued authoritative guidance that amended the consolidation guidance applicable to variable interest entities. This guidance became effective for the Company's fiscal 2010 first quarter and did not have an impact on the Company's financial statements.

New Accounting Standards Not Yet Adopted

None.

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, 2010	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
U.S. treasury and agencies			
Maturities within 1 year	$ 859,589	$ 853,682	$ (5,907)
Maturities after 1 year through 5 years	249,137	244,161	(4,976)
Total U.S. Treasury and agencies	1,108,726	1,097,843	(10,883)
Corporate bonds			
Maturities after 1 year through 5 years	267,251	259,154	(8,097)
Fixed income mutual funds	6,678,972	6,715,870	36,898
Equity and other mutual funds	248,993	241,536	(7,457)
	$ 8,303,942	$ 8,314,403	$ 10,461
December 31, 2009			
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)

The fair values of the Company's certificates of deposit, which approximated cost at December 31, 2009, were determined using Level 2 inputs. Unrealized gains and losses were not material. The Company did not hold any certificates of deposit at December 31, 2010.

Proceeds from the sale and redemption of marketable securities amounted to $6,509,428 and $1,135,000 for the years ended December 31, 2010 and 2009, respectively. Realized gains (losses) were $39,958 and ($5,226) for the years ended December 31, 2010 and 2009, respectively

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, 2010	December 31, 2009
Raw materials and work-in-process	$ **447,295**	$ 329,562
Finished products	**874,094**	823,575
	$ **1,321,389**	$ 1,153,134

Finished product inventories at December 31, 2010 and 2009 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, 2010	2009
Current		
Federal	$ **1,792,531**	$ 1,832,616
State	**18,211**	27,529
	1,810,742	1,860,145
Deferred		
Federal	**(94,040)**	798
State	**(2,794)**	24
	(96,834)	822
Total provision for income taxes	$ **1,713,908**	$ 1,860,967

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

	Years ended December 31, 2010 ($)	2010 Tax rate (%)	2009 ($)	2009 Tax rate (%)
Income taxes at statutory federal income tax rate of 34%	$ **1,875,000**	**34**	$ 1,952,000	34
State income taxes, net of Federal benefit	**12,000**	**---**	18,000	---
Domestic Production Activities tax benefit	**(153,000)**	**(3)**	(95,000)	(2)
Nondeductible expenses	**1,000**	**---**	1,000	---
Prior year over-accrual	**(15,000)**	**---**	(9,000)	---
Tax exempt income	**(6,000)**	**---**	(6,000)	---
Actual income tax expense	$ **1,714,000**	**31**	$ 1,861,000	32

During 2010 and 2009, the Company realized the tax benefits of the Domestic Production Activities deduction, which amounted to approximately 9% and 6% of net taxable income from domestic production activities, respectively, in both years.

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

	Years ended December 31, 2010	2009
Deferred tax assets		
Current		
Accounts receivable	$ **7,866**	$ 10,398
Accrued pension liability	**---**	179,641
Inventories	**21,478**	20,311
Accrued expenses	**188,984**	232,684
	218,328	443,034
Deferred tax liabilities		
Non-current		
Pension asset	**---**	(141,899)
Unrealized loss on marketable Securities	**(3,626)**	3,892
	(3,626)	(138,007)
Net deferred tax asset	$ **214,702**	$ 305,027

NOTE E - BENEFIT PLANS

Defined Benefit Pension Plan: The Company previously sponsored a non-contributory defined benefit pension plan ("DB Plan") for its employees. The Company curtailed future benefit accruals to the DB Plan, which had been frozen since December 31, 2007. In March 2010, the Company received regulatory approval to terminate the DB Plan, and on July 13, 2010 the DB Plan was formally terminated. The termination resulted in the Company recognizing a one-time non-cash expense of $518,296, offset by a $179,641 tax benefit associated with recognizing unamortized actuarial losses. In addition, the Company provided for a cash contribution of $337,378, offset by a $116,900 tax benefit, in order to fully fund the DB Plan. The recognition of the non-cash and cash contributions resulted in a before-tax charge of $847,744, and an after-tax charge of $559,133 ($0.12 per share) for the year ended December 31, 2010. Since the non-cash expense had previously been provided for as a charge to other comprehensive income, the net effect of the termination on stockholders' equity was a decrease of $220,478.

The DB Plan assets at fair value as of December 31, 2010 and 2009 were as follows:

	2010	2009
Equity securities:		
Principal Financial Group Stock Separate Account - Level 1	$ ----	$ 56,931
Principal Large Cap Stock Index Separate Account - Level 1	----	219,119
Principal Medium Company Blend Separate Account - Level 1	----	180,468
Total Equity Securities		456,518
Debt securities:		
General Investment Account* - Level 3	---	1,564,634
Total Plan Assets	$ ---	$ 2,021,152

* 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, 2010 and 2009:

	2010	2009
Balance, beginning of year	$ **1,564,634**	$ 1,668,662
Realized gains	**---**	77,236
Unrealized (losses) relating to instruments still held at reporting date	**---**	(26,218)
Purchases, sales, issuances and settlements (net)	**(1,564,634)**	(155,046)
Balance, end of year	$ ---	$ 1,564,634

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.

The following table sets forth the Plan's funded status as of December 31, 2010 and 2009:

	2010	2009
Change in Benefit Obligation:		
Projected benefit obligation at beginning of year	$ **2,130,044**	$ 1,906,813
Interest cost	**---**	113,864
Actuarial loss	**337,378**	145,090
Benefits paid	**---**	(35,723)
Effect of settlement/curtailment	**(2,467,422)**	---
Projected benefit obligation at end of year	$ **---**	$ 2,130,044
Change in Plan Assets:		
Fair value of Plan assets at beginning of year	$ **2,021,152**	$ 2,030,402
Actual return on Plan assets	**---**	26,473
Employer contributions	**446,270**	---
Benefits paid	**---**	(35,723)
Effect of settlement	**(2,467,422)**	---
Fair value of Plan assets at end of year	$ ---	$ 2,021,152
Funded status at end of year - (underfunded) overfunded	$ ---	$ (108,892)
Amounts recognized in statement of financial position:		
Current liability	$ ---	$ (108,892)
Non-current asset	---	---
Total	$ ---	$ (108,892)
Amounts recognized in accumulated Other Comprehensive Income ("OCI"):		
Total net (gain) loss	$ ---	$ 518,297
Total accumulated OCI (not adjusted for applicable tax)	$ ---	$ 518,297
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	N/A	5.75%
Rate of compensation increase	N/A	5.31%

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

	2010	2009
Components of net periodic pension (benefit) cost		
Interest cost	$ ---	$ 113,864
Expected return on Plan assets	---	(131,315)
Amortization of net actuarial loss	---	6,659
Effect of special events	---	---
Net periodic pension (benefit) cost	$ ---	$ (10,792)
Other changes recognized in OCI		
Net (gain) loss	$ **(518,297)**	$ 249,932
Amortization of net loss	**---**	(6,659)
Amount recognized due to special event	**---**	---
Total recognized in other comprehensive income	$ **(518,297)**	$ 243,273
Total recognized in net periodic benefit cost and OCI	$ **(518,297)**	$ 232,481
Weighted-average assumptions used to determine net period pension (benefit) cost		
Discount rate	---	6.25%
Expected long-term return on Plan assets	---	6.75%
Rate of compensation increase	---	5.36%

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 DB Plan as of December 31, 2007, and has since terminated 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 for each of the years ended December 31, 2010 and 2009.

In addition, in December 2010 and 2009 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 2010 and 2009 plan years. The 2010 contribution, which was accrued in 2010, was made in January 2011, and the 2009 contribution was made in December 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.

As of December 31, 2010 and 2009, no stock options had been issued under this plan.

As of December 31, 2010 and 2009, 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, 2010 and 2009.

NOTE F - GEOGRAPHIC and OTHER INFORMATION

Through its Guardian Laboratories division the Company manufactures and markets cosmetic ingredients, personal care products, pharmaceuticals, medical and health care products, and specialty industrial products. It also conducts research and development, primarily related to the development of new and unique cosmetic and personal care products. The Company'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 not pharmaceutical products. They consist primarily of medical lubricants, which are marketed by the Company directly to end-users that incorporate them into urologic catheters and other medical devices. 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 markets the product as a medical device. However, the Company is responsible for manufacturing these products in accordance with Current Good Manufacturing Practices for medical devices.

The industrial products are also marketed 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 Sales

	Years ended December 31, 2010	2009
Personal Care	$ **8,391,156**	$ 7,976,819
Pharmaceuticals	**2,699,467**	2,823,152
Medical	**2,612,088**	2,682,739
Industrial	**169,209**	124,899
	13,871,920	13,607,609
Less Discounts and allowances	**(148,846)**	(330,625)
	$ **13,723,074**	$ 13,276,984

(b) Geographic Information

	Years ended December 31, 2010		2009	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	**$ 6,068,696**	**$ 1,209,160**	$ 6,612,165	$ 946,711
Canada	**1,995,510**	**---**	1,828,981	---
China	**1,549,551**	**---**	1,415,533	---
France	**1,323,875**	**---**	951,241	---
Other countries	**2,785,442**	**---**	2,469,064	---
	$ 13,723,074	**$ 1,209,160**	$ 13,276,984	$ 946,711

(c) Sales to Major Customers

	Years ended December 31, 2010	2009
Customer A	**$ 6,034,744**	$ 6,120,001
Customer B	**1,177,231**	806,047
All other customers	**6,511,099**	6,350,936
	$ 13,723,074	$ 13,276,984

NOTE G - 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 H - ACCRUED EXPENSES

Accrued expenses at December 31, 2010 and 2009 consist of:

	2010	2009
Accrued 401(k) plan contribution	**$ 175,000**	$ ---
Accrued bonuses	**180,000**	182,000
Accrued distribution fees	**190,590**	303,493
Other	**270,406**	333,701
	$ 815,996	$ 819,194

NOTE I - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2010 and 2009 the Company paid to Henry Globus, a former officer and current director of the Company, $22,296 in each year, for consulting services in accordance with his employment termination agreement of 1988.

During each of the years ended December 31, 2010 and 2009 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $16,500, and $14,500, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta, and Cartelli, LLP, is a director of the Company.

On May 28, 2010 the Company acquired 350,000 shares of its stock from its largest stockholder and President, Kenneth H. Globus, at $10.75 per share, for a total of $3,762,500. The Company accounted for these shares using the retirement method.

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 and fixed income 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 on mutual funds are determined using the average cost method, while realized gains or losses on government securities and bonds are determined using the specific-identification method. Realized gains or losses on the Company's marketable securities are insignificant for the years ended December 31, 2010 and 2009. 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 2010 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, 2010 compared with the year ended December 31, 2009

Net Sales

Net sales in 2010 increased by $446,090 (3.4%) compared with 2009. This increase was primarily attributable to the following:

(a) **Personal care products**: Sales of the Company's personal care products, including cosmetic ingredients, increased by $414,337 (5.2%) for the year ended December 31, 2010 when compared with 2009, and was attributable to an increase in sales to three of the Company's marketing partners in Europe, as well as to its marketing partner in South Korea. The Company believes that the increases in sales of personal care products were the result of improving economic conditions in both Europe and South Korea. The increases in all locations were primarily attributable to increases in sales of the Company's extensive line of LUBRAJEL® products.

The Company's sales to ISP, its largest marketing partner, decreased by 1.4% in 2010 compared with 2009, which the Company believes is due to normal fluctuations in ISP's buying patterns. The Company had combined sales increases of $615,608 (39.4%) in 2010 compared with 2009 from its other five marketing partners (four of whom are in Western Europe). The Company attributes this increase to an improvement in economic conditions in Western Europe, which resulted in an increase in demand for personal care and cosmetic ingredients.

Overall, sales of the Company's LUBRAJEL products to all customers increased by 3.2% in 2010 compared with 2009. The volume of all LUBRAJEL products sold, both for personal care and medical uses, increased by approximately 3.0% in 2010 compared with 2009.

(b) **Pharmaceuticals**: Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN, decreased by $123,685 (4.4%) for the year ended December 31, 2010 compared with 2009. RENACIDIN accounted for approximately 17% of the Company's sales in 2010 compared with 18% in 2009. The decrease in sales of the Company's pharmaceutical products in 2010 was due primarily to a decrease in sales of RENACIDIN in November and December 2010 due to a shortage in supply. This product has been manufactured for the Company under a long-term contract with a major U.S. drug company that experienced regulatory problems unrelated to the production of RENACIDIN, resulting in a temporary suspension of RENACIDIN production. As a result, the Company's regular inventory of this product was on allocation to the Company's customers beginning at the end of November, 2010, resulting in approximately a 60% reduction in sales each month until the Company ran out of product completely in the beginning of February 2011. At the beginning of March 2011 the Company obtained permission from the FDA to market a validation batch that had been produced in 2009, and the Company began allocating this batch to customers in mid-March 2011. It may run out of product again sometime in May 2011, depending on when production resumes. The Company has been working closely with its supplier to resume production as quickly as possible. At the present time the Company is projecting that production will resume in April 2011, in which case normal shipments will resume in May 2011. The Company estimates that if this schedule holds, it will have lost approximately $550,000 in gross sales as a result of this shortage, of which approximately $150,000 in gross sales would have impacted the Company's 2010 sales, and the balance will impact the Company's revenue in 2011. The

Company has formally notified the supplier that it believes it is in breach of its supply agreement, and that the Company intends to hold it responsible for any business lost and expenses incurred as a result of this temporary curtailment of production and deliveries. The reduction in sales of the Company's pharmaceutical products was partially offset by a price increase that went into effect in April 2010.

(c) **Medical (non-pharmaceutical) products**: Sales of the Company's non-pharmaceutical medical products decreased $70,651 (2.6%) when compared with 2009. The Company believes that the decrease was due to customer buying patterns, which were impacted positively by one-time events that occurred in 2009 to two of the Company's largest customers for these products, and which did not affect their buying patterns into 2010.

Sales were also positively impacted by an increase of $44,310 (35.5%) in sales of the Company's line of specialty industrial products, and a decrease of $203,490 (76.1%) in sales discounts and allowance reserves. The decrease in sales discounts and allowances was mainly due to a decrease in the allowance for distribution fees.

Cost of Sales

Cost of sales as a percentage of net sales in 2010 decreased to 38.3% from 40.1% in the prior year. The decrease was primarily due to increased sales of higher margin products and a decrease in sales of one of the Company's lower margin products.

Operating Expenses

Operating expenses decreased by $41,083 (1.6%) in 2010 compared with the prior year. This decrease was mainly due to decreases in professional fees, utilities and advertising in 2010 when compared with 2009.

Portions of the Company's operating expenses are directly attributable to the research and development that the Company performs. In 2010 and 2009, the Company incurred approximately $596,000 and $533,000, respectively, in research and development expenses, which are included in operating expenses. The increase in R&D costs incurred in 2010 was primarily attributable to increases in payroll costs due to the addition of research chemists. No portion of the research and development expenses was directly paid by the Company's customers.

Pension Plan Termination

On July 13, 2010, the Company terminated its non-contributory defined benefit pension plan ("DB Plan"). The termination resulted in the Company recognizing a one-time non-cash expense of $518,296, offset by a $179,641 tax benefit associated with recognizing unamortized actuarial losses. In addition, the Company provided for a cash contribution of $337,378, offset by a $116,900 tax benefit, in order to fully fund the DB Plan. The recognition of the non-cash and cash contributions resulted in a before-tax charge of $847,744, and an after-tax charge of $559,133 ($0.12 per share) for the year ended December 31, 2010. Since the non-cash expense had previously been provided for as a charge to other comprehensive income, the net effect of the termination on stockholders' equity was a decrease of $220,478.

Other Income (Expense)

The Company earns interest income from certificates of deposit, money market funds, and bonds, and dividend income from both stock and bond mutual funds. Other income (net) increased $60,105 (15.2%) for the year ended December 31, 2010 when compared with 2009, which was mainly attributable to an increase in investment income of $60,525 in 2010. This increase was primarily related to an increase in earnings from fixed income and equity mutual funds.

Provision for Income Taxes

The provision for income taxes decreased $147,059 (7.9%) in 2010 compared with 2009. This decrease was mainly due to a decrease in income before taxes of $226,330 (3.9%) in 2010 when compared with 2009, and an increase of $150,000 in the domestic production activities deduction in 2010. The Company's effective income tax rate was approximately 31% and 32% in 2010 and 2009, respectively, and 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 decreased from $14,735,891 at December 31, 2009 to $11,765,995 at December 31, 2010, a decrease of $2,969,896 (20.2%). The decrease in working capital was primarily due to the acquisition by the Company of 350,000 shares of Company stock from the Company's largest shareholder, who is also the President and a director of the Company. The current ratio increased to 12.5 to 1 at December 31, 2010 from 6.0 to 1 at December 31, 2009. The increase in the current ratio was primarily due to the decrease in dividends payable, partially offset by other changes in working capital items.

Accounts receivable as of December 31, 2010 decreased by $274,175 as compared with 2009. The average period of time that an account receivable was outstanding was approximately 33 days in 2010 and 38 days in 2009. The Company has a bad debt reserve of $23,000, 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 $4,093,318 in 2010 compared with $4,337,448 in 2009. The decrease in 2010 was primarily due to a $79,271 decrease in net income, a $168,255 increase in inventory, and a $114,082 decrease in accounts payable. These decreases were partially offset by a $278,853 increase in accounts receivable.

Net cash provided by investing activities was $746,315 for the year ended December 31, 2010 compared with $34,750 for the year ended December 31, 2009. The increase was mainly due to the redemption of certificates of deposits in 2010.

Cash used in financing activities was $8,346,117 and $2,776,663 during the years ended December 31, 2010 and 2009, respectively. The increase was primarily due to the acquisition of Company stock from the President of the Company, as well as the payment of a cash dividend of $0.33 per share on December 27, 2010. In prior years the semi-annual dividend declared in December was not paid until the following January. In 2010 that dividend was both declared and paid in December, which resulted in the Company paying three dividends in 2010 compared with the two that it paid in 2009.

The Company believes that its working capital is sufficient to support its operating requirements for the next fiscal year. The Company's long-term liquidity position will be dependent upon its ability to generate sufficient cash flow from profitable operations. The Company has no material commitments for future capital expenditures.

OFF-BALANCE-SHEET ARRANGEMENTS

The Company has no off-balance-sheet transactions that have, or are reasonably likely to have, a current or future effect on the Company’s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

NEW ACCOUNTING PRONOUNCEMENTS

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

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

Market Information

The Common Stock of the Company has traded on the NASDAQ Global Market since March 16, 2009, under the symbol "UG". From December 1, 2008 through March 13, 2009, following the merger of the American Stock Exchange with the New York Stock Exchange, the Company's Common Stock was traded on the NYSE Amex Stock Exchange under the same symbol. Prior to December 1, 2008 its stock traded on the American Stock Exchange under the same symbol.

The following table sets forth 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, 2009 to December 31, 2010. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		**Year Ended December 31, 2010**		Year Ended December 31, 2009	
		High	**Low**	High	Low
First	(1/1 - 3/31)	**$ 12.99**	**$ 11.26**	$ 10.75	$ 5.86
Second	(4/1 - 6/30)	**13.29**	**11.77**	9.77	6.66
Third	(7/1 - 9/30)	**14.43**	**11.03**	9.80	8.66
Fourth	(10/1 - 12/31)	**15.39**	**13.00**	12.10	9.40

Holders of Record

As of March 1, 2011, there were 957 holders of record of Common Stock.

Cash Dividends

On May 12, 2010, the Company's Board of Directors declared a semi-annual cash dividend of $0.30 per share, which was paid on June 11, 2010 to all stockholders of record as of May 27, 2010. On December 1, 2010, the Company's Board of Directors declared a semi-annual cash dividend of $0.33 per share, which was paid on December 27, 2010 to all stockholders of record as of December 15, 2010.

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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheets of United-Guardian, Inc. (the "Company") as of December 31, 2010 and 2009, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United-Guardian, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Holtz Rubenstein Reminick LLP
Melville, New York
March 23, 2011

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
Jay Weil, Esq.
New York, 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.

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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