


ANNUAL REPORT 2011

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
Director of Technical Services
Manager of Research & Development

PETER A. HILTUNEN
Vice President
Production Supervisor
Director of Plant Operations

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

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

2011 ANNUAL REPORT
to the Stockholders of
UNITED-GUARDIAN, INC.

April 15, 2012

Dear Stockholder,

While the global economic recovery continues to be slower than expected, this past year has been good to us, with sales and earnings both reaching new highs. I attribute our success primarily to having a line of products that sets us apart from many other companies, both in the quality of what we produce and in our ability to innovate quickly to take advantage of changes in the marketplace. Cosmetics and pharmaceuticals have both been market segments that historically have been more resistant to economic downturns. As a result, we have continued to do well, despite the fact that the U.S. and foreign economies are still struggling to improve.

I am happy to report that for the first time in the company's history sales have exceeded $14 million, increasing from $13,723,074 in 2010 to $14,338,512 last year, an increase of 4.5%. Consistent with that, our earnings also reached a record high of $1.03 per share, compared with $0.80 per share in 2010. This is the first time our earnings have surpassed the $1.00 per share mark.

There are a number of reasons why our financial results were as strong as they were last year. First, sales of our cosmetic ingredients increased 10% over 2010, due primarily to the continuing success of our marketing partnerships with companies such as Ashland Specialty Ingredients (ASI), our largest marketing partner. ASI is one of the four commercial units of Ashland Inc. (NYSE: ASH), and was formed when Ashland Inc. acquired International Specialty Products Inc. (ISP) in August 2011 and integrated it into Ashland's Aqualon Functional Ingredients commercial unit. The name of the combined unit was then changed to Ashland Specialty Ingredients. As many of you probably know, for many years International Specialty Products has been our largest marketing partner. We are excited about our new relationship with Ashland, which had $6.5 billion in sales last year. We have been working closely with them to develop new products, and are confident that, with their assistance, as well as the marketing efforts of our other marketing partners, we will be able to continue to grow the sales of our cosmetic ingredients.

The second reason for our strong 2011 results was the growth of our non-pharmaceutical medical products business, which increased 11% over 2010. This continues to be a growing market for us, and we just completed work on a project with a major new foreign customer for a new medical lubricant (see Lubrajel TF below) that we developed specifically for them. We expect to see significant sales to them this year, and are confident that we can continue to grow this market segment as well.

Sales of our two pharmaceutical products, Clorpactin® and Renacidin® Irrigation, have typically been very steady from year-to-year, but Renacidin sales still have not fully recovered from the temporary production curtailment we experienced at the end of 2010 and beginning of 2011. The curtailment was the result of regulatory issues at the production facility responsible for manufacturing Renacidin for us. Even though our product was not involved, they were required to obtain FDA approval before they could restart production at that facility, so we lost considerable sales at the end of 2010 and the first few months of 2011 while they were undergoing the restart process. Although we were fully compensated by them for our lost profits, it has taken longer than expected to regain the level of sales we had before the curtailment. We are hopeful that with increased advertising we will once again reach, and hopefully exceed, our previous sales levels. We are also investigating the possibility of producing a smaller and more user-friendly dosage size of Renacidin, which we believe will result in increased sales. If we decide to go forward with that project, and if we are successful with its development, we believe that it could substantially increase our revenue from Renacidin in the coming years. Our current estimate is that it will take approximately 24 months to receive FDA approval, which means the product would probably come onto the market in mid to late 2014.

In addition to our continuing efforts to increase the market share for our existing products, we are also working with our marketing partners to continue to expand our product lines. The most important product development work going on right now is in connection with our new Lubrajel Natural. This is a completely new product formulation of Lubrajel, which is our extensive line of water-based moisturizing and lubricating gels. We expect the product to be considered "natural" by Ecocert, a leading industry certification organization for natural and organic products. We believe that this product will be of interest to many companies looking to develop all-natural products. We currently have one prototype formulation being evaluated by ASI, and hope to add additional formulations as the project progresses. We expect the current interest in all-natural products to continue to grow, and believe that developing an all-natural Lubrajel formulation would be very exciting to our customers. We are also researching an all-natural Lubrajel based on ingredients from the sea. Our goal is to have at least two of these all-natural Lubrajels in the hands of our marketing partners by the end of 2012.

In 2011 we also completed work on our new Unitwix II. This is a reformulation of our original Unitwix, a cosmetic additive used as a thickener for oils and oil-based liquids. The new formulation is less expensive to produce, which will enable us to market it at a substantially lower price than the original formulation. Last year, samples were provided to our current Unitwix customers, and some have already switched to the new product. The Unitwix II was developed primarily because of the significant increase in raw material costs for Unitwix over the past two years. Whether this new formulation will be successful or not will depend on whether our primary customer for Unitwix reformulates with Unitwix II, and whether we are able to continue to obtain the raw materials for the new formulation at prices that will enable us to sell it at a price that will be cost effective for our customers.

The status of some of our other research projects is as follows:

- **LUBRAJEL TF**: A new medical lubricant (mentioned above) developed specifically for a global medical products company. Development work has been completed and the first trial order has been shipped. Regular sales are expected to begin by the end of the second quarter of 2012.

- **VEGETABLE OIL THICKENER**: A thickener for cosmetic products using a vegetable oil base, particularly lotions. The goal is to develop a thickener that will result in a clear and colorless finished product, which current products cannot do.

- **LUBRAJEL BA:** A new Lubrajel formulation for oral care uses.

- **SENSORY ENHANCERS:** Skin-feel modifiers to enhance the skin feel of cosmetic products.

- **RAZORIDE "F":** a modification of our original Razoride formula that has been developed for a new customer, who plans to market it sometime in 2012 in high-end stores.

With the exception of the Lubrajel Natural, Lubrajel TF, and Unitwix II, all of the projects mentioned above are in very early stages of development, and it should be understood that there is no guarantee that we will be successful in our development efforts. However, we believe that there is market potential for all of them, and we plan to work closely with our marketing partners to decide where our research efforts would be the most productive.

We were once again very pleased to be in a financial position to not only pay dividends to our stockholders in 2011, but to increase those dividends substantially over the previous year. In 2011, the Board of Directors declared two semi-annual dividends totaling $0.80 per share, a 27% increase over the $0.63 per share in dividends that the Board declared in FY-2010. This is the 16th consecutive year that we have paid a dividend, and once again we are very happy to be able to share our continued success with our stockholders. As those of you who have been our stockholders for a while know, our stock price over the past few years has risen steadily. We believe that the increase in earnings and dividend payments that we have experienced is the primary reason for this. As a result, our stock has come to the attention of people who otherwise may not have taken notice, and that has increased the daily trading volume of our stock as well.

I am optimistic that we will be able to continue to develop new and unique products for the personal care and medical markets. Our goal is to continue to increase our sales and earnings in the coming years as we further increase the market penetration of our existing products, and continue the development of some exciting new products. I am grateful to all of our stockholders who have put their faith in us, and we will continue to do our best to make sure that your confidence in us remains justified in the coming years.

Sincerely,

UNITED-GUARDIAN, INC.

Ken Globus

Ken Globus
President

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME

	Years ended December 31	
	2011	2010
Net sales	**$ 14,338,512**	$ 13,723,074
Costs and expenses:		
Cost of sales	**5,650,160**	5,250,121
Operating expenses	**2,552,790**	2,567,395
Pension plan termination	**---**	847,744
Total costs and expenses	**8,202,950**	8,665,260
Income from operations	**6,135,562**	5,057,814
Other income:		
Investment income	**332,652**	455,786
Gain on sale of assets	**18,251**	---
Income from damage settlement	**385,182**	---
Total other income	**736,085**	455,786
Income from operations before income taxes	**6,871,647**	5,513,600
Provision for income taxes	**2,155,117**	1,713,908
Net income	**$ 4,716,530**	$ 3,799,692
Earnings per common share (basic and diluted)	**$ 1.03**	$ .80
Weighted average shares (basic and diluted)	**4,596,439**	4,738,357

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

ASSETS

	December 31,	
	2011	2010
Current assets:		
Cash and cash equivalents	**$ 1,090,974**	$ 1,514,589
Marketable securities	**9,295,755**	8,314,403
Accounts receivable, net of allowance for doubtful accounts of $18,000 in 2011 and $23,000 in 2010	**1,653,440**	1,090,711
Inventories (net)	**1,467,434**	1,321,389
Prepaid expenses and other current assets	**163,034**	148,240
Prepaid income taxes	**78,613**	182,575
Deferred income taxes	**223,546**	218,328
Total current assets	**13,972,796**	12,790,235
Property, plant, and equipment:		
Land	**69,000**	69,000
Factory equipment and fixtures	**3,694,379**	3,650,283
Building and improvements	**2,714,780**	2,618,253
Waste disposal plant	**133,532**	133,532
Total property, plant and equipment	**6,611,691**	6,471,068
Less accumulated depreciation	**5,366,204**	5,261,908
Net property, plant, and equipment	**1,245,487**	1,209,160
Other asset	**37,672**	75,344
Total assets	**$ 15,255,955**	$ 14,074,739

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS
(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2011	2010
Current liabilities:		
Accounts payable	**$ 400,389**	$ 208,244
Accrued expenses	**676,959**	815,996
Total current liabilities	**1,077,348**	1,024,240
Deferred income taxes	**64,578**	3,626
Stockholders' equity:		
Common stock, $.10 par value; 10,000,000 shares authorized; 4,596,439 shares issued and outstanding at December 31, 2011 and 2010, respectively	**459,644**	459,644
Accumulated other comprehensive income	**34,612**	6,835
Retained earnings	**13,619,773**	12,580,394
Total stockholders' equity	**14,114,029**	13,046,873
Total liabilities and stockholders' equity	**$ 15,255,955**	$ 14,074,739

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years ended December 31, 2011 and 2010

	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, 2010	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 benefit 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	
Change in unrealized loss on marketable securities, net of deferred income tax of $14,735				27,777			27,777	27,777
Net income					4,716,530		4,716,530	4,716,530
Dividends declared					(3,677,151)		(3,677,151)	
Comprehensive income								$ 4,744,307
Balance, December 31, 2011	4,596,439	$459,644	$ ---	$ 34,612	$ 13,619,773	$ ---	$14,114,029	

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2011	2010
Cash flows from operating activities:		
Net income	**$ 4,716,530**	$ 3,799,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**255,583**	229,777
Net gain on sale of assets	**(18,251)**	---
Realized loss (gain) on sales of marketable securities	**8,765**	(39,958)
Realized loss on pension termination	**---**	338,655
Reduction in allowance for bad debts	**(5,092)**	(4,678)
Deferred income taxes	**40,999**	82,807
(Decrease) increase in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	**(557,636)**	278,853
Inventories	**(146,045)**	(168,255)
Prepaid expenses and other current and non-current assets	**89,168**	(59,000)
Accounts payable	**192,145**	(114,082)
Accrued expenses and taxes payable	**(139,037)**	(141,601)
Pension liability	**---**	(108,892)
Net cash provided by operating activities	**4,437,129**	4,093,318
Cash flows from investing activities:		
Acquisitions of plant and equipment	**(274,645)**	(454,554)
Proceeds from the sale of assets	**38,658**	---
Purchases of marketable securities	**(3,987,606)**	(6,323,425)
Proceeds from sales of marketable securities	**3,040,000**	6,509,428
Net change in certificates of deposit	**---**	1,014,866
Net cash (used in) provided by investing activities	**(1,183,593)**	746,315
Cash flows from financing activities:		
Acquisition of treasury stock	**---**	(3,762,500)
Dividends paid	**(3,677,151)**	(4,583,617)
Net cash used in financing activities	**(3,677,151)**	(8,346,117)
Net decrease in cash and cash equivalents	**(423,615)**	(3,506,484)
Cash and cash equivalents, beginning of year	**1,514,589**	5,021,073
Cash and cash equivalents, end of year	**$ 1,090,974**	$ 1,514,589

See Notes to Financial Statements

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 94% and 95% of revenue for the years ended December 31, 2011 and December 31, 2010, respectively. LUBRAJEL accounted for 82% and 78% of revenue for the years ended December 31, 2011 and December 31, 2010, and RENACIDIN accounted for 13% and 17% of revenue for the years ended December 31, 2011 and December 31, 2010, respectively.

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 11, 2011, the Company's Board of Directors declared a semi-annual cash dividend of $0.36 per share, which was paid on June 13, 2011 to all stockholders of record as of May 30, 2011. On December 7, 2011, the Company's Board of Directors declared a semi-annual cash dividend of $0.44 per share, which was paid on December 23, 2011 to all stockholders of record as of December 16, 2011.

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.

Supplemental Disclosures of Non-cash Investing and Financing Activities

Cash payments for income taxes were $2,010,000 and $2,082,395 for the years ended December 31, 2011 and 2010, respectively. 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 are carried at fair value, which approximates cost. Certificates 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. At December 31, 2011 and 2010 the Company did not hold any certificate of deposits.

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, 2011 and 2010.

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 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 exposes 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, 2011, two customers, both of them distributors and marketing partners of the Company, accounted for approximately 58% of the Company’s revenues, and one of those customers accounted for approximately 47% of the Company's outstanding accounts receivable at year end. For the year ended December 31, 2010, these same two customers accounted for a total of 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.

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 83% and 89% of the raw material purchases by the Company in 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010 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 2008 through 2011.

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 $637,000 and $596,000 for the years ended December 31, 2011 and 2010, 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 $109,000 and $112,000 for the years ended December 31, 2011 and 2010, respectively.

Advertising Costs

Advertising costs are expensed as incurred. During 2011 and 2010 the Company incurred $28,392 and $8,800, 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, and the allocation of overhead.

New Accounting Standards

In June 2011, the FASB issued an amendment to the disclosure requirements for the presentation of comprehensive income. The amendment requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance is effective retrospectively for the interim periods and annual periods beginning after December 15, 2011. The Company will adopt this amendment in the first quarter of 2012. The adoption of this amendment will not have a material impact on the Company's results of operations, cash flows or financial position.

NOTE B - MARKETABLE SECURITIES

The fair values of the Company's marketable securities 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, 2011	Cost	Fair Value	Unrealized Gain/(Loss)
Available for sale:			
U.S. treasury and agencies			
Maturities within 1 year	$ 249,137	$ 234,388	$ (14,749)
Corporate bonds			
Mature within 1 year	267,251	247,719	(19,532)
Maturities after 1 year through 5 years	203,920	195,899	(8,021)
Total corporate bonds	471,171	443,618	(27,553)
Fixed income mutual funds	8,268,624	8,372,216	103,592
Equity and other mutual funds	253,850	245,533	(8,317)
	$ 9,242,782	$ 9,295,755	$ 52,973
December 31, 2010			
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

Proceeds from the sale and redemption of marketable securities amounted to $3,040,000 and $6,509,428 for the years ended December 31, 2011 and 2010, respectively. Realized (losses) gains were ($8,765) and $39,958 for the years ended December 31, 2011 and 2010, respectively.

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

NOTE C - INVENTORIES

Inventories consist of the following:

	December 31,	
	2011	2010
Raw materials and work-in-process	**$ 470,532**	$ 447,295
Finished products	**996,902**	874,094
	$1,467,434	$ 1,321,389

Finished product inventories at December 31, 2011 and 2010 are stated net of a reserve of $20,000 and $39,000, respectively, for slow moving and obsolete items.

NOTE D – INCOME TAXES

The provision for income taxes consists of the following:

	Years ended December 31, 2011	2010
Current		
Federal	**$ 2,093,065**	$ 1,792,531
State	**21,053**	18,211
	2,114,118	1,810,742
Deferred		
Federal	**39,817**	(94,040)
State	**1,182**	(2,794)
	40,999	(96,834)
Total provision for income taxes	**$ 2,155,117**	$ 1,713,908

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,			
	2011		2010	
	($)	**Tax rate**	($)	Tax rate
Income taxes at statutory federal income tax rate of 34%	**$ 2,337,000**	**34 %**	$ 1,875,000	34 %
State income taxes, net of Federal benefit	**14,000**	**---**	12,000	---
Domestic Production Activities tax benefit	**(164,000)**	**(2)**	(153,000)	(3)
Nondeductible expenses	**1,000**	**---**	1,000	---
Prior year over-accrual	**(9,000)**	**---**	(15,000)	---
R&D credit	**(20,000)**			
Tax exempt income	**(4,000)**	**---**	(6,000)	---
Actual income tax expense	**$ 2,155,000**	**32 %**	$ 1,714,000	31 %

During 2011 and 2010, the Company realized the tax benefits of the Domestic Production Activities deduction, which amounted to approximately 9% of net taxable income from domestic production activities in each year.

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

	Years ended December 31, **2011**	2010
Deferred tax assets		
Current		
Accounts receivable	**$ 6,101**	$ 7,866
Inventories	**15,905**	21,478
Accrued expenses	**201,540**	188,984
	223,546	218,328
Deferred tax liabilities		
Non-current		
Depreciation	**(46,217)**	---
Unrealized gain on marketable securities	**(18,361)**	(3,626)
	(64,578)	(3,626)
Net deferred tax asset	**$ 158,968**	$ 214,702

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 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, 2011 and 2010:

	2011	2010
Balance, beginning of year	$ ---	$ 1,564,634
Realized gains	---	---
Unrealized (losses) relating to instruments still held at reporting date	---	---
Purchases, sales, issuances and settlements (net)	---	(1,564,634)
Balance, end of year	$ ---	$ 0

The following table sets forth the Plan's funded status as of December 31, 2011 and 2010:

	2011	2010
Change in Benefit Obligation:		
Projected benefit obligation at beginning of year	$ ---	$ 2,130,044
Interest cost	---	---
Actuarial loss	---	337,378
Benefits paid	---	---
Effect of settlement/curtailment	---	(2,467,422)
Projected benefit obligation at end of year	$ ---	$ 0
Change in Plan Assets:		
Fair value of Plan assets at beginning of year	$ ---	$ 2,021,152
Actual return on Plan assets	---	---
Employer contributions	---	446,270
Benefits paid	---	---
Effect of settlement	---	(2,467,422)
Fair value of Plan assets at end of year	$ ---	$ 0
Funded status at end of year - (underfunded) overfunded	$ ---	$ ---
Amounts recognized in statement of financial position:		
Current liability	$ ---	$ ---
Non-current asset	---	---
Total	$ ---	$ ---

	2011	2010
Amounts recognized in accumulated Other Comprehensive Income ("OCI"):		
Total net (gain)	$ ---	$ ---
Total accumulated OCI (not adjusted for applicable tax)	$ ---	$ ---
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	N/A	N/A
Rate of compensation increase	N/A	N/A

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

	2011	2010
Components of net periodic pension (benefit) cost		
Interest cost	$ ---	$ ---
Expected return on Plan assets	---	---
Amortization of net actuarial loss	---	---
Effect of special events	---	---
Net periodic pension (benefit) cost	$ ---	$ ---
Other changes recognized in OCI		
Net (gain)	$ ---	$ (518,297)
Amortization of net loss	---	---
Amount recognized due to special event	---	---
Total recognized in other comprehensive income	$ ---	$ (518,297)
Total recognized in net periodic benefit cost and OCI	$ ---	$ (518,297)
Weighted-average assumptions used to determine net Period pension (benefit) cost:		
Discount rate	---	---
Expected long-term return on Plan assets	---	---
Rate of compensation increase	---	---

Defined Contribution Plan

The Company sponsors a 401(k) defined contribution plan ("DC Plan") that provides for a dollar-for-dollar employer matching contribution of the first 4% of each employee's pay. Employees become fully vested in employer matching contributions after one year of employment. Company 401(k) matching contributions were approximately $97,000 and $90,000 for each of the years ended December 31, 2011 and 2010. In 2010 and 2011 employees were able to 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 the 401(k)plan, in accordance with limits set by the IRS. (Those limits will increase to $17,000 (plus an additional $5,500 for employees over the age of 50) in 2012).

The Company also makes 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. In December 2011 and 2010 the Company's Board of Directors authorized discretionary contributions in the amount of $175,000 per year, to be allocated among all eligible employees, for the 2011 and 2010 plan years. The 2011 contribution was paid in 2011, and the 2010 contribution, which was accrued at December 31, 2010, was paid in January 2011. Employees become vested in the discretionary contributions as follows: 20% after two years of employment, and 20% for each year of employment thereafter until the employee becomes fully vested after six 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, 2011 and 2010, no stock options had been issued under this plan.

As of December 31, 2011 and 2010, 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, 2011 and 2010.

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. 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 table "(b)" below is partially based on sales information provided to the Company by Customer A (shown in table "(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, 2011	2010
Personal Care	**$ 9,236,704**	$ 8,391,156
Pharmaceuticals	**2,315,093**	2,699,467
Medical	**2,897,699**	2,612,088
Industrial and other	**133,826**	169,209
	14,583,322	13,871,920
Less: Discounts and allowances	**(244,810)**	(148,846)
	$ 14,338,512	$ 13,723,074

(b) Geographic Information

	2011 Revenues	2011 Long-Lived Assets	2010 Revenues	2010 Long-Lived Assets
United States	**$ 5,805,331**	**$ 1,245,487**	$ 6,068,696	$ 1,209,160
Canada	**2,551,980**	**---**	1,995,510	---
China	**2,144,451**	**---**	1,549,551	---
France	**1,029,382**	**---**	1,323,875	---
Other countries	**2,807,368**	**---**	2,785,442	---
	$ 14,338,512	**$ 1,245,487**	$ 13,723,074	$ 1,209,160

(c) Sales to Major Customers

	Years ended December 31, 2011	2010
Customer A	**$ 7,333,581**	$ 6,034,744
Customer B	**909,111**	1,177,231
All other customers	**6,095,820**	6,511,099
	$ 14,338,512	$ 13,723,074

NOTE G - INCOME FROM DAMAGE SETTLEMENT

At the end of 2010 the Company experienced a temporary suspension of RENACIDIN IRRIGATION production due to regulatory issues at the supplier's facility. Production did not resume until May 2011. As a result, the Company determined that it lost approximately $390,000 in gross profit that would have been generated from sales of the product if production had not been curtailed. The Company and its supplier entered into a settlement agreement whereby the Company would be reimbursed for these losses. The miscellaneous income of $385,182 represents the amount that was repaid to the Company in 2011. The Company expects to receive the remaining amount (approximately $4,800) in the second quarter of 2012. Further information can be found in the Company's filing on Form 10-K for 2010.

NOTE H - ACCRUED EXPENSES

Accrued expenses at December 31, 2011 and 2010 consist of:

	2011	2010
Accrued 401(k) plan contribution	**$ ---**	$ 175,000
Accrued bonuses	**200,000**	180,000
Accrued distribution fees	**191,171**	190,590
Other	**285,788**	270,406
	$ 676,959	$ 815,996

NOTE I - RELATED PARTY TRANSACTIONS

During each of the years ended December 31, 2011 and 2010 the Company paid to Henry Globus, a former officer and a director of the Company until his death in December 2011, $22,296 for consulting services in accordance with his employment termination agreement of 1988.

During each of the years ended December 31, 2011 and 2010 the Company paid to Bonamassa, Maietta, and Cartelli, LLP, $11,000, and $16,500, 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.

During the first quarter of 2011 the Company sold one of its vehicles, with a book value of $20,407, to one of its Vice Presidents for $15,154 (the vehicle's fair market value) as part of his severance package. As a result, the Company recognized a non-cash loss of $5,253.

During the third quarter of 2011 the President of the Company, Kenneth H. Globus, was reimbursed $11,406 for the value of the trade-in of a personal vehicle that was used to purchase a Company vehicle.

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, 2011 and 2010. 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 2011 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, 2011 compared with the year ended December 31, 2010

Net Sales

Net sales in 2011 increased by $615,438 (4.5%) compared with 2010. 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 $845,548 (10.1%) for the year ended December 31, 2011 when compared with 2010. The increase was attributable primarily to an increase in sales to ASI, the Company's largest marketing partner. Sales to the Company's marketing partner in the UK also increased in 2011. Sales to the Company's three other marketing partners in Europe and its marketing partner in South Korea all experienced a decrease in 2011. The Company believes that the increase in sales of its personal care products was the result of improving economic conditions in Asia and North America, which resulted in new consumer product introductions utilizing its products. The overall increase in sales was almost entirely attributable to an increase in sales of the Company's extensive line of LUBRAJEL® products.

The Company's sales to ASI increased by 21.5% in 2011 compared with 2010, which the Company believes is partially due to normal fluctuations in ASI's buying patterns but is also attributable to new consumer product introductions and new customers for the Company's products. The Company had combined sales decreases of $338,854 (15.6%) in 2011 compared with 2010 from its other five marketing partners (four of whom are in Western Europe). The Company attributes this decrease to a decline in the economic conditions in Western Europe in 2011, which resulted in a decrease in demand for personal care and cosmetic ingredients.

Overall, sales of the Company's LUBRAJEL products for both personal care and medical uses increased by $1,042,529 (9.8%) in 2011 compared with 2010. The unit volume of all LUBRAJEL products sold, both for personal care and medical uses, increased by approximately 8.7% in 2011 compared with 2010.

(b) **Pharmaceuticals**: Sales of the Company's two pharmaceutical products, RENACIDIN and CLORPACTIN, decreased by $400,523 (14.8%) for the year ended December 31, 2011 compared with 2010. RENACIDIN accounted for approximately 13% of the Company's sales in 2011 compared with 17% in 2010. The decrease in sales of the Company's pharmaceutical products in 2011 was due to a decrease in sales of RENACIDIN. This product has been manufactured for the Company under a long-term contract with a major U.S. drug company that experienced regulatory problems in 2010 at its facility that manufactures RENACIDIN, which were unrelated to the production of RENACIDIN. The supplier's problems resulted in a temporary suspension of RENACIDIN production in August 2010. As a result, the Company's inventory of this product was significantly reduced, forcing the Company to allocate its supply by reducing sales to the Company's customers from November 2010 until May 2011. This resulted in approximately a 60% reduction in RENACIDIN sales each month beginning in November 2010 until the Company ran out of product completely in the beginning of February 2011. The Company's supplier resumed production of RENACIDIN in the first quarter of 2011, and sales of the product by the Company resumed in May 2011. The reduction in sales of the Company's pharmaceutical products was partially offset by a price increase that went into effect in June 2011.

(c) **Medical (non-pharmaceutical) products**: Sales of the Company's non-pharmaceutical medical products increased $285,610 (10.9%) when compared with 2010. The Company believes that the increase was partially due to customer buying patterns, but was also attributable to new customers and an increase in volume to existing customers.

(d) **Industrial and other products:** Sales of the Company's industrial products, as well as other miscellaneous products, decreased by $35,383 (20.9%) when compared with 2010.

Sales were negatively impacted by an increase of $95,964 (64.5%) in sales discounts and allowance reserves. The increase in sales discounts and allowances was mainly due to increases in the allowance for distribution fees.

Cost of Sales

Cost of sales as a percentage of net sales in 2011 increased to 39.4% from 38.3% in the prior year. The increase was primarily the result of increases in raw material costs, particularly the Company's primary raw material, as well as an increase in direct labor costs.

Operating Expenses

Operating expenses decreased by $14,605 (0.6%) in 2011 compared with the prior year. This decrease was due to a reduction in legal and accounting fees.

Portions of the Company's operating expenses are directly attributable to the research and development that the Company performs. In 2011 and 2010, the Company incurred approximately $637,000 and $596,000, respectively, in research and development expenses, which are included in operating expenses. The increase in R&D costs incurred in 2011 was primarily attributable to increases in payroll costs. 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 in 2010 a one-time non-cash expense of $518,296, offset by a $179,641 tax benefit associated with recognizing unamortized actuarial losses. In addition, in 2010 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 in 2010 was a decrease of $220,478.

Other Income (Expense)

Other income (net) increased $280,299 (61.5%) for the year ended December 31, 2011 when compared with 2010. The increase was mainly attributable to $385,182 in income the Company received from the settlement of a claim for damages between the Company and one of its suppliers. The claim resulted from the temporary suspension of production of the Company's RENACIDIN by its supplier at the end of 2010 due to regulatory issues at the supplier's facility. Production did not resume until May 2011. As a result, the Company determined that it lost approximately $390,000 in gross profit that would have been generated from sales of the product if production had not been curtailed. The Company and its supplier entered into a settlement agreement whereby the Company would be reimbursed for these losses. The miscellaneous income of $385,182 represents the amount that was paid to the Company by the supplier during the third quarter of 2011. The Company expects to receive the remaining amount (approximately $4,800) in the second quarter of 2012. Further information on this matter can be found in footnote "G" and the Company's filing on Form 10-K for 2010.

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 was reduced by a decrease in investment income in 2011 of $123,134, which primarily resulted from lower interest and dividend returns compared with 2010.

The Company also had a gain of $23,774 from the sale of a Company asset, which was partially offset by a loss of $5,523 on the sale of a Company vehicle. There were no comparable gains or losses in 2010.

Provision for Income Taxes

The provision for income taxes increased $441,209 (25.7%) in 2011 compared with 2010. This increase was mainly due to an increase in income before taxes of $1,358,047 (24.6%) in 2011 when compared with 2010. The Company's effective income tax rate was approximately 31% in 2011 and 2010, 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 increased from $11,765,995 at December 31, 2010 to $12,895,448 at December 31, 2011, an increase of $1,129,453 (9.6%). The current ratio increased to 13.0 to 1 at December 31, 2011 from 12.5 to 1 at December 31, 2010. The increases in working capital and the current ratio were primarily the result of increases in marketable securities, accounts receivable, and inventory.

Accounts receivable as of December 31, 2011 increased by $562,729 (net of allowance for doubtful accounts) as compared with 2010. The average period of time that an account receivable was outstanding was approximately 35 days in 2011 and 33 days in 2010. The Company has a bad debt reserve of $18,000, 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 because the Company has no foreseeable need for a line of credit, and therefore management believes that the cost of maintaining a line of credit cannot be justified, especially considering the strong financial condition of the Company.

The Company generated cash from operations of $4,437,129 in 2011 compared with $4,093,318 in 2010. The increase in 2011 was primarily due to a $916,838 increase in net income, a $557,636 increase in accounts receivable, a $146,046 increase in inventory, and a $192,146 increase in accounts payable.

Net cash used in investing activities was $1,184,152 for the year ended December 31, 2011 when compared with net cash provided by investing activities of $746,315 for the year ended December 31, 2010. This was mainly due to proceeds from the sale of marketable securities and the redemption of certificates of deposit in 2010.

Cash used in financing activities was $3,677,151 and $8,346,117 during the years ended December 31, 2011 and 2010, respectively. The decrease was primarily due to there being no further acquisition of treasury stock in 2011, and no dividend payable in the first quarter of 2011. The Company chose to pay the year-end dividend in December 2010 rather than waiting until January 2011 due to uncertainties regarding the extension of certain tax cuts on qualified dividends originally enacted under the Economic Growth and Tax Relief Reconciliation Act of 2001.

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 NASDAQ, for the period January 1, 2010 to December 31, 2011. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

Quarters		**Year Ended December 31, 2011**		Year Ended December 31, 2010	
		High	**Low**	High	Low
First	(1/1 - 3/31)	**$ 15.30**	**$ 14.09**	$ 12.99	$ 11.26
Second	(4/1 - 6/30)	**15.63**	**14.04**	13.29	11.77
Third	(7/1 - 9/30)	**15.00**	**12.96**	14.43	11.03
Fourth	(10/1 - 12/31)	**15.25**	**14.50**	15.39	13.00

Holders of Record

As of March 1, 2012, there were 925 holders of record of Common Stock.

Cash Dividends

On May 11, 2011, the Company's Board of Directors declared a semi-annual cash dividend of $0.36 per share, which was paid on June 13, 2011 to all stockholders of record as of May 30, 2011. On December 7, 2011, the Company's Board of Directors declared a semi-annual cash dividend of $0.44 per share, which was paid on December 23, 2011 to all stockholders of record as of December 16, 2011.

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.

UNITED-GUARDIAN, INC.

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, 2011 and 2010, 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, 2011 and 2010, 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, 2012

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

Auditors
Holtz Rubenstein Reminick LLP
Melville, NY

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

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United-Guardian, Inc.
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