UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

**FORM 1O-K**

(Mark One)

☑ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-10526

# UNITED-GUARDIAN, INC.

(Exact name of Registrant as specified in its charter)

| Delaware | 11-1719724 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 230 Marcus Blvd., Hauppauge, NY | 11788 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (631) 273-0900

Securities registered pursuant to Section l2(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $.10 par value | The NASDAQ Global Market |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

| Large accelerated filer ☐ | Accelerated filer ☐ | Non-accelerated filer ☐ (Do not check if a smaller reporting company.) | Smaller reporting company ☑ |
|---|---|---|---|

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☑

As of the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common stock held by non-affiliates (based on the closing sales price of such shares on The NASDAQ Global Market ("NASDAQ")) was approximately $22,615,318. (For the purpose of this report it has been assumed that all officers and directors of the Registrant, as well as all stockholders holding 10% or more of Registrant's stock, are affiliates of the Registrant).

As of March 1, 2010, the Registrant had issued 5,008,639 shares of Common Stock, $.10 par value per share ("Common Stock"), of which 4,946,439 shares were outstanding and 62,200 held as Treasury Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain information required by Part III (portions of Item 10, as well as Items 11, 12, and 13) is incorporated by reference from the Registrant's definitive proxy statement for the 2010 annual meeting of stockholders ("2010 Proxy Statement"), which, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, is to be filed with the Securities and Exchange Commission no later than 120 days after Registrant's fiscal year end.

This Annual Report on Form 10-K contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a safe harbor for forward-looking statements by the Registrant about its expectations or beliefs concerning future events, such as financial performance, business prospects, and similar matters. The Registrant desires to take advantage of such "safe harbor" provisions and is including this statement for that express purpose. Words such as "anticipates", "believes", "expects", "intends", "future", and similar expressions identify forward-looking statements. Any such "forward-looking" statements in this report reflect the Registrant's current views with respect to future events and financial performance, and are subject to a variety of factors that could cause Registrant's actual results or performance to differ materially from historical results or from the anticipated results or performance expressed or implied by such forward-looking statements. Because of such factors, there can be no assurance that the actual results or developments anticipated by the Registrant will be realized or, even if substantially realized, that they will have the anticipated results. The risks and uncertainties that may affect Registrant's business include, but are not limited to: economic conditions, governmental regulations, technological advances, pricing and competition, acceptance by the marketplace of new products, retention of key personnel, the sufficiency of financial resources to sustain and expand Registrant's operations, and other factors described in this report and in prior filings with the United States Securities and Exchange Commission ("SEC"). Readers should not place undue reliance on such forward-looking statements, which speak only as of the date hereof, and should be aware that except as may be otherwise legally required of Registrant, Registrant undertakes no obligation to publicly revise any such forward-looking statements to reflect events or circumstances that may arise after the date hereof.

# PART I

## Item 1. Business.

### (a) Introduction

United-Guardian, Inc. ("United", "Registrant", or “Company”) is a Delaware corporation that, through its Guardian Laboratories Division ("Guardian"), conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. United's predecessor, United International Research Corp. (which name was later changed to United International Research, Inc. ("UIR")), was founded and incorporated in New York in 1942 by Dr. Alfred R. Globus, United's Chairman and Director of Research until his death on April 9, 2009. On February 10, 1982, a merger took place between UIR and Guardian Chemical Corp. ("GCC"), an affiliate of UIR, whereby GCC was merged into UIR and the name was changed to United-Guardian, Inc., a New York corporation. On September 14, 1987, United-Guardian, Inc. (New York) was merged with and into a newly formed Delaware corporation by the same name, United-Guardian, Inc., for the purpose of changing the domicile of United to Delaware.

The Company conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. The research and development 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.

The Company has a broad range of products, some of which are currently marketed, some of which are marketable but are not currently marketed by the Company, and some of which are still in the developmental stage. Of the products being actively marketed, the two largest product lines are the

LUBRAJEL® line of cosmetic ingredients and medical lubricants, which accounted for approximately 78% of the Company's sales in 2009, and its RENACIDIN® IRRIGATION, a pharmaceutical product that accounted for approximately 18% of the Company's sales in 2009. The Company actively seeks other companies as potential marketers for its products, particularly for those products that are not yet being actively marketed by the Company or by the Company's marketing partners.

## (b) Narrative Description of Business

The Company conducts research, product development, manufacturing and marketing of many different cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products, all of which were developed by the Company, and many of which have unique properties. Many of the Company's products are marketed through collaborative agreements with larger companies. The personal care products manufactured by the Company, including the cosmetic ingredients, are marketed to end-users through the Company's worldwide network of marketing partners and distributors, and are currently used by many of the major international cosmetic and personal care products companies. The Company sells product outright to its marketing partners, FOB the Company's plant in Hauppauge, New York, and those marketing partners in turn resell those products to their customers, who are typically the end-users of the products. The products are not sold on a consignment basis, so unless a product is determined to be defective it is not returnable except at the discretion of the Company.

The Company's pharmaceutical products are marketed by direct advertising, mailings, and trade exhibitions, and are sold to end-users primarily through the major drug wholesalers, which purchase the Company's products outright for resale to their customers. The Company's pharmaceutical products are returnable only at the discretion of the Company unless (a) they are found to be defective, or (b) they are outdated but within one year after their expiration date, which is in accordance with standard pharmaceutical industry practice. The Company also sells a small quantity of pharmaceutical products directly to hospitals and pharmacies. The non-pharmaceutical medical products and the specialty industrial products are sold directly by the Company to the end-users.

The Company's products are sold under trademarks or trade names owned by the Company. The marks for the most important products, LUBRAJEL and RENACIDIN, as well as some other Company trademarks, are registered as trademarks with the United States Patent and Trademark Office.

## Products

The Company operates in one business segment and serves several end markets:

### PERSONAL CARE

**LUBRAJEL** is an extensive line of water-based moisturizing and lubricating gel formulations that are used as ingredients in personal care and medical products. In the personal care industry, they are used primarily as moisturizers and bases for other cosmetic ingredients, and can be found as an ingredient in skin creams, moisturizers, makeup, and body lotions. For medical products, their primary use is as a lubricant. The largest selling product in the LUBRAJEL line in 2009 was LUBRAJEL CG, the original form of LUBRAJEL, followed in sales by LUBRAJEL Oil. Some of the other varieties of LUBRAJEL sold for cosmetic use (all using the LUBRAJEL name) are MS, DV, TW, NP, WA, PF and LUBRAJEL II XD. In addition, many of the above products are available in comparable formulations that do not use parabens as the preservative and use a different preservative instead, which is preferred by some customers. Those equivalent products are differentiated by adding the word 'Free' after the name (for example, LUBRAJEL MS Free), indicating that it does not contain parabens.

**LUBRAJEL PF** is a completely preservative-free form of LUBRAJEL currently being marketed primarily by Societe D'Etudes Dermatologiques ("Sederma"), a subsidiary of Croda International Plc (“Croda”), under Sederma’s tradename "Norgel". Sederma is the Company's marketing partner and distributor in France and, along with its parent company, Croda, is a major supplier of cosmetic ingredients in Europe. The product is distributed by some of the Company's other marketing partners under the LUBRAJEL PF tradename. Tests conducted by Sederma indicated that the product self-preserves, and aides in the preservation of other cosmetic ingredients with which it is formulated.

Each of the following products accounted for less than 1% of the Company’s sales in 2009:

**LUBRASIL**™ is a special form of LUBRAJEL in which silicone oil is incorporated into a LUBRAJEL base by microemulsification, thereby maintaining clarity similar to the other LUBRAJEL products. The product has a silky feel, and is water resistant while moisturizing the skin. The newest products in the LUBRASIL line are the LUBRASIL II products, which currently consist of LUBRASIL II DM and LUBRASIL II SB. Both products contain substantially higher levels of silicone than the original LUBRASIL products, and are intended to be additions to the line, not replacements for the original LUBRASIL.

**LUBRAJEL II XD** is a version of LUBRAJEL that was developed to be a drop-in replacement for one of the competitive products to LUBRAJEL.

**KLENSOFT**™ is a surfactant (a surface active agent, such as a soap or detergent, that can reduce the surface tension of a liquid and thus allow it to foam or penetrate solids or act as a wetting agent) that can be used in shampoos, shower gels, makeup removers, and other cosmetic formulations. Klensoft sales have been inconsistent due to the buying patterns of the main customer for the product. As a result, in 2009 sales of Klensoft decreased significantly.

**UNITWIX**® is a cosmetic additive used as a thickener for oils and oil-based liquids. It is a proprietary, unpatented product.

**CONFETTI™ DERMAL DELIVERY FLAKES** is a product line introduced in 2000 that incorporates various functional oil-soluble ingredients into colorful flakes that can be added to, and suspended in, various water-based products. The product color and ingredients can be customized to meet the needs of individual customers. Sales of this product have declined over the years.

**ORCHID COMPLEX**™ is a successor product to the Company's previous Oil of Orchids product, and is a base for skin creams, lotions, cleansers, and other cosmetics. It is an extract of fresh orchids, modified by extractants, stabilizers, and preservatives, and is characterized by its excellent lubricity, spreadability, light feel, and emolliency. Because of its alcohol solubility, it may also be used in fragrance products such as perfumes and toiletries. Its emolliency makes it an excellent additive to shampoos, bath products and facial cleansers. It is also a superior emollient for sunscreens, vitamin creams, toners and skin serums. It is sold in two forms, water-soluble and oil-soluble.

**LUBRASLIDE**™ and a related product, **B-122**™, are powdered lubricants used in the manufacture of cosmetics such as pressed powders, eye liners, and rouges. They are used as binders for these products, increasing water-repellency and drop strength, and lowering the coefficient of friction.

**RAZORIDE**™ is a clear, hypo-allergenic, non-foaming, water-based shaving product that is surfactant- and soap-free and has excellent lubricity and moisturizing properties. It is intended to be a finished product, not an ingredient. There were no sales of this product in 2009.

**PLEXAJEL™ ASC** is a water-based gel product that was developed to produce clear, low-pH personal care products with moisturizing properties. The original intended use for this product has not materialized.

**AQUATHIK™** is a powder that is used as a gelling agent for aqueous solutions or emulsions with a pH below 7.

**HYDRAJEL™ PL** is a personal lubricant originally developed specifically for the feminine personal care market.

The Company believes that its ability to increase sales of its LUBRAJEL products for cosmetic and other personal care uses will depend on (a) the ability of its marketing partners, especially International Specialty Products Inc. ("ISP"), its largest marketing partner, to continue to aggressively promote the Company's products, particularly to new customers, and (b) the Company's success in developing new forms of LUBRAJEL that will enable the product to be used in new applications. The Company is continuing to develop new varieties of LUBRAJEL to extend the line even further, and is working with its marketing partners to find new marketing opportunities.

The Company believes that there is still significant potential to expand the sales of its LUBRAJEL line of products through product modifications, additional claim substantiation, and geographic expansion, especially in such developing markets as mainland China, India, and Eastern Europe.

Any future increases in sales of the LUBRAJEL line of products may be negatively impacted by sales of competitive products. However, there are a limited number of competitors to the Company's LUBRAJEL product line, and the Company believes that, because of the proprietary nature of the LUBRAJEL formulations, the strong brand name identity, the cost to the end-user of reformulation, the Company's long history of supplying quality products, and the Company's continuing product development programs, it will continue to be able to compete effectively in the marketplace and expand the market for its LUBRAJEL product line. See "Business – Narrative Description of Business – Competition," below.

## MEDICAL

**LUBRAJEL RR and RC** are water-based gels used primarily as lubricants for catheters. Both are special grades of LUBRAJEL that can withstand sterilization by gamma radiation, which is one of the methods of terminally sterilizing medical and hospital products. On April 11, 1995, the Company was granted a U.S. patent for these unique forms of LUBRAJEL that expires in December 2013. LUBRAJEL RR was the original radiation resistant product. LUBRAJEL RC was developed specifically for one customer that packages the product in unit doses as a catheter lubricant for many manufacturers. Combined sales of these two products rose to 12% of the Company's sales in 2009, an increase of 36% from 2008. About half of this increase was due to new business, and the balance was the result of customer buying patterns.

**LUBRAJEL MG** is the original form of LUBRAJEL developed for medical use, and is used by many medical device manufacturers for lubricating urinary catheters, prelubricated enema tips, and other medical devices. Sales decreased in 2009 by 8% as a result of buying patterns of customers. Sales of this product represent 3% of the Company's sales.

**LUBRAJEL LC** was developed for a specific customer who required a product suitable for oral use in a line of mouth moisturizers. Sales of this product increased by 109% in 2009 due to the acquisition of that customer by a major multinational pharmaceutical company. That company expects to continue to increase its purchases of this product, which now represent 5% of the Company's sales.

**LUBRAJEL FLUID** is a very low viscosity form of LUBRAJEL that was developed to provide superior lubrication in water-soluble products. It was specifically developed, and is currently being used, as a replacement for silicone oils in pre-lubricated condoms.

Sales of all of the medical grades of LUBRAJEL increased by 37% and accounted for approximately 20% of the Company's sales in 2009 compared with 16% in 2008.

### PHARMACEUTICAL

**RENACIDIN** is a urological prescription drug that is used primarily to prevent and to dissolve calcifications in catheters implanted in the urinary bladder. It is marketed as a ready-to-use sterile solution under the name RENACIDIN IRRIGATION. It is also approved for use in dissolving certain types of kidney stones. It currently has regulatory approval only in the United States.

**CLORPACTIN® WCS-90** is an antimicrobial product used primarily in urology to treat infections in the urinary bladder. It is also used in surgery for treating a wide range of localized infections in the peritoneum, the abdominal cavity, the eye, ear, nose and throat, and the sinuses. The product is a white powder that is mixed with water and used as a solution. It is a powerful disinfectant, fungicide, and deodorizer.

### INDUSTRIAL

**DESELEX™ Liquid** is a sequestering and chelating agent that is a replacement for phosphates in the manufacture of detergents.

**POLYCOMPLEX M** and **Q** are complexing agents capable of producing clear solutions of specific water-insoluble materials.

## Development Activities

The Company's research and development department has developed a large number of products that can be used in many different industries, including the pharmaceutical, medical, personal care (including cosmetic), health care, and specialty chemical industries. These products are in various stages of development, some currently marketable and some in the very early stages of development requiring a substantial amount of development work to bring them to market. Research is also being done on new uses for currently marketed products.

Prior to initiating research and development work on a product, market research is done to determine the marketability of the product, including the potential market size and the most effective method of marketing the product. After that, the research and development department will determine whether the product can be successfully developed, including (a) laboratory refinements and adjustments to suit the intended uses of the product; (b) stability studies to determine the effective shelf-life of the product and suitable storage and transportation conditions; and (c) laboratory efficacy tests to determine the effectiveness of the product under different conditions.

If the initial development work is successful, further development work to bring the product to market will continue, including some or all of the following: (a) clinical studies needed to determine safety and effectiveness of drug or medical device products; (b) preparatory work for the filing of Investigational New Drug Applications or New Drug Applications; and (c) scaling up from laboratory production batches to pilot batches to full-scale production batches.

While there can be no assurance that any particular project will result in a new marketable product or a commercially successful product, the Company believes that a number of its development projects, including those discussed below, may have commercial potential if the Company's development efforts are successful.

The Company's major research focus is on the development of new and unique ingredients for cosmetic and other personal care products. The following are some of the projects that the Company is either working on or intends to work on in the near future:

**CLORONINE**: a powerful disinfectant, germicide, and sanitizer for disinfecting medical and surgical instruments and equipment (particularly where autoclaves are not available), and for the purification of water supplies. The product had been developed many years ago, and has since been reformulated. There can be no assurance that the Company's efforts to market this product will be successful.

**EMOLIEN**: A water-based emollient and moisturizer. It is intended to be a cost-effective emollient (used at a level of 0.2% to 0.5%), to increase lubricity and moisturization for creams, lotions and gels, as well as other potential uses.

**ESSENTIAL ELEMENTS** (copper/zinc peptides): A new product for skin and hair care applications. The specifics cannot be disclosed until patentability issues are investigated further, but the product would be used to maintain and improve healthy cellular metabolism.

**NATURAL POLYMER BLEND:** A line of polysaccharide polymers from natural sources (sourced from vegetables and micro-organisms), suitable as a thickener and emulsion stabilizer.

**LUBRAJEL UT:** A new form of LUBRAJEL, formulated with a new ingredient, that may have health care uses, primarily in the urological field. The Company is in the process of sampling this product to potential customers, and has filed a patent application with the U.S. Patent & Trademark Office.

It should be understood that many of the research and development projects listed above are in their early stages of development, and there can be no assurance that marketable products will result from these efforts.

The Company expects its research and development costs for 2010 to be comparable to those of the last two fiscal years. Any additional increase in development and/or production costs will depend on whether capital investments are required in order to continue development work on, or to manufacture, any of the new products under development.

The Company requires all employees and consultants who may receive confidential and proprietary information to agree in writing to keep such information confidential.

## Trademarks and Patents

The Company strongly believes in protecting its intellectual property and intends, whenever reasonably possible and economically practical, to obtain patents in connection with its product development program. The Company currently holds a number of United States patents and trademarks relating to its products, and regularly has patent and trademark applications pending with respect to a number of its research and development products. Some patents previously issued to the Company on certain products have expired. There can be no assurance that any patents held by the Company will be valid or otherwise of value to the Company, or that any patent applied for will be granted. However, the Company believes that its proprietary manufacturing techniques and procedures with respect to certain

products offer it some protection from duplication by competitors regardless of the patent status of the products.

The various trademarks and trade names owned or used by the Company in its business are of varying importance to the Company. The most significant products for which the Company has registered trademarks are LUBRAJEL and RENACIDIN.

Set forth below is a table listing certain information with respect to all unexpired U.S. patents held by the Company. The Company does not anticipate that the expiration of the patent that is expiring in 2010 will have any material impact on the Company's revenue. The Company also has one or more patents pending.

| PATENT NAME | PATENT # | FILING DATE | ISSUE DATE | EXPIRATION DATE |
|---|---|---|---|---|
| Stabilized beta carotene | 5,023,355 | 6/1990 | 6/1991 | 6/2010 |
| Radiation-resistant lubricating gel | 5,405,622 | 12/1993 | 4/1995 | 12/2013 |
| Delivery system for oil-soluble actives in cosmetic and personal care products | 6,117,419 | 9/1996 | 9/2000 | 12/2016 |
| Microemulsion of silicone in a water-based gel that forms a clear, transparent, highly stable moisturizer and lubricant for cosmetic and medical use | 6,348,199 | 1/1994 | 2/2002 | 2/2019 |

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

| | Expiration Date |
|---|---|
| 1. Iodophor; polyethylene glycol alkyl aryl sulfonate iodine complex | April 2008 |
| 2. Iodophor; biocide; reacting polyethylene glycol, alkyl aryl sulfonate and iodine water-propylene glycol solvent refluxing | April 2008 |
| 3. Thermal-resistant microbial agent ("Cloronine") | December 2008 |
| 4. Use of Clorpactin for the treatment of animal mastitis and the applicator used in that treatment | December 2008 |
| 5. Stable, active chlorine-containing antimicrobial compositions ("Cloronine") | July 2009 |

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

## Domestic Sales

In the United States, the Company's cosmetic ingredient products are marketed and distributed exclusively by ISP in accordance with a marketing agreement entered into in 1996 and subsequently

amended and expanded in 2000, 2002, and 2005 (see "Marketing Agreements" below). ISP also has certain non-exclusive rights to sell some of the Company's other industrial and medical products. Although the written marketing agreement with ISP expired in 2008, the Company is currently in the process of discussing with ISP a renewal of that marketing agreement, and expects its marketing arrangement with ISP to continue even without a written marketing agreement. See “Business – Narrative Description of Business – Marketing Agreements,” below.

The Company's domestic sales of pharmaceutical products are handled primarily through the major full-line drug wholesalers and account for approximately 21% of the Company's sales. The Company's other products, such as its medical (non-pharmaceutical) and specialty industrial products, are sold directly to manufacturers who incorporate these products in their finished products.

## Foreign Sales

In 2009, approximately 50% of the Company’s sales were to customers in foreign countries, primarily sales of its cosmetic ingredients to customers in Europe and Asia, compared with 57% in 2008. The Company currently has six distributors for its personal care products outside the United States, with ISP being the largest. The Company previously had a written marketing agreement with ISP that expired in 2008, which gave them exclusive foreign marketing rights with the exception of the following areas: the United Kingdom (handled by S. Black Ltd., a subsidiary of The Azelis Group); France (by Sederma SAS, a subsidiary of Croda International Plc.; Italy (by Luigi & Felice Castelli S.R.L.); Switzerland (by S. Black GmbH, a subsidiary of S. Black Ltd.); and Korea (by C&M International). The Company also has significant direct sales to a company in Ireland, Harmac Medical Products Ltd., for one of the Company’s LUBRAJEL products for a medical use. The Company is in the process of discussing with ISP a renewal of its written marketing agreement, and has no other written marketing agreements for the foreign distribution of its products.

## Marketing

The Company markets its products through marketing partners and distributors, advertising in medical and trade journals, mailings to physicians and to the trade, and exhibitions at medical meetings. The pharmaceutical products are sold in the United States primarily to drug wholesalers, which in turn distribute and resell those products to drug stores, hospitals, physicians, long-term care facilities, and the Veteran's Administration and other government agencies. The proprietary cosmetic ingredients and other personal care products are sold outright (not on consignment) to the Company’s marketing partners, which in turn market and resell the products to cosmetic and other personal care manufacturers for use in the manufacture or compounding of their products. The medical (non-pharmaceutical) and specialty industrial products are sold by the Company directly to the end-users.

## Marketing Agreements

In 1994, the Company entered into a marketing agreement with ISP whereby ISP would market and distribute the Company's personal care products, as well as some medical and specialty industrial products, in certain parts of Europe, Asia, Australia, and Africa. ISP manufactures and markets globally an extensive line of personal care and pharmaceutical additives and various other industrial products. In 1996, the parties entered into another agreement, extending ISP’s distribution rights to the United States, Canada, Mexico, and Central and South America. In July 2000, the parties entered into an Exclusive Marketing Agreement (the "2000 Agreement"), which modified, extended, and consolidated the 1994 and 1996 agreements. The 2000 Agreement also gave the Company greater flexibility in appointing other marketing partners in areas where ISP was not active or had not been successful, gave ISP certain additional territories, and granted ISP exclusivity in the territories assigned to it as long as annual minimum purchase requirements were met.

In December 2002, the parties entered into a letter agreement that extended and modified the 2000 Agreement. This was further modified in December 2005 to extend ISP's marketing rights until December 2008, and to provide for automatic extensions until December 2010 if specified minimum annual purchase levels were attained. It also specified guidelines and provisions for future price increases by the Company. Although ISP did not attain the sales levels required for the automatic extension, the Company is in the process of discussing an extension of ISP's marketing rights, and expects its existing marketing arrangement with ISP to continue even without a formal marketing agreement.

The Company believes that in the event ISP were to cease marketing the Company's products alternative arrangements could be made to continue to supply products to customers currently using the Company's products without any significant interruption of sales.

The Company has other marketing arrangements with marketing partners in the U.K., France, Switzerland, South Korea, and Italy, but all of these other arrangements are operating under either verbal agreements or expired written agreements, and are subject to termination at any time by either party.

## Raw Materials

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

## Inventories; Returns and Allowances

The Company's business requires that it maintain moderate inventories of certain of its finished goods. Historically, returns and allowances have not been a significant factor in the Company's business.

## Backlog

The Company currently does not have any significant backlog.

## Customers

The Company's customers are primarily its marketing partners and distributors. They in turn sell the Company's products to hundreds of end-users. Although the Company has relatively few companies that it sells to directly (i.e., its marketing partners and distributors), it is not dependent on any one of those companies for the sale of its products. The Company is confident that if any of its marketing partners or distributors were to decide not to sell the Company's products, the end-users of its products would still purchase the Company's products, either directly from the Company or from a replacement marketing partner or distributor.

## Competition

The Company has many products or processes that are either proprietary or have some unique characteristics, and therefore the Company believes it has been able, and will continue to be able, to compete effectively with other pharmaceutical, personal care, specialty chemical, or health care companies as to products deemed competitive with the those of the Company. The pharmaceutical, health care, and cosmetic industries are all highly competitive, and the Company expects competition to intensify as

advances in the field are made and become widely known. There may be many domestic and foreign companies that are engaged in the same or similar areas of research as those in which the Company is engaged, many of which have substantially greater financial, research, manpower, marketing and distribution resources than the Company. In addition, there are many large, integrated and established pharmaceutical, specialty chemical, personal care and health care companies that have greater capacity than the Company to develop and to commercialize types of products upon which the Company's research and development programs are based. However, the Company believes that the expense of testing and evaluating possible substitutes for the Company's products that are already in customers' formulations, as well as the expense to the customer in relabeling its products, is a significant barrier to displacing the Company's products in current customer formulations. These cost factors make it less likely that a customer would choose a competitive product, unless there was a significant cost savings in doing so. The Company believes that manufacturing, regulatory, distribution and marketing expertise will be increasingly important competitive factors in favor of the Company. In this regard, the Company believes that its marketing arrangements with its global marketing partners will be important in the commercialization of many of the products it is currently developing.

## ISO 9001:2008 Registration

In October 2009 the Company was certified by Underwriters Laboratories, Inc. to be in compliance with the current ISO 9001:2008 standard, indicating that the Company's documented procedures and overall operations had attained the high level of quality needed to comply with this ISO certification level. Prior to that, since December 2003 the Company had been registered under the previous ISO 9001:2000 standard, also by Underwriters Laboratories, Inc. The Company had first earned ISO registration in November 1998, when it earned ISO 9002 registration, and has been in continuous compliance with each of these standards from the time of its approval under each standard.

## Government Regulation

Regulation by governmental authorities in the United States and other countries is a significant factor in the manufacturing and marketing of many of the Company's products. The Company and many of the Company's products are subject to certain government regulations. Products that may be developed and sold by the Company in the United States may require approval from federal regulatory agencies, such as the United States Food and Drug Administration ("FDA") as well as state regulatory agencies. Products that may be developed and sold by the Company outside the United States may require approval from foreign regulatory agencies. Any medical device products developed by the Company will be subject to FDA regulation, and will usually require a 510(k) pre-market notification to the FDA to demonstrate that the device is at least as safe and effective as a legally marketed device. The Company would then need to receive clearance from the FDA prior to marketing the device. Most new pharmaceutical products will require clinical evaluation under an Investigational New Drug application prior to submission of a New Drug Application for approval of a new drug product.

The Company is required to comply with all pertinent Good Manufacturing Practices of the FDA for medical devices and drugs. Accordingly, the regulations to which the Company and certain of its products may be subject, and any changes with respect thereto, may materially affect the Company's ability to produce and market new products developed by the Company.

The Company's present and future activities are, and will likely continue to be, subject to varying degrees of additional regulation under the Occupational Safety and Health Act, Environmental Protection Act, import, export and customs regulations, and other present and possible future foreign, federal, state and local regulations.

Portions of the Company's operating expenses are directly attributable to complying with federal, state, and local environmental statutes and regulations. In each of the years 2009 and 2008 the Company incurred approximately $27,000 in environmental compliance costs. There was no material financial or other impact on the Company as a result of compliance with environmental laws.

**Employees**

The Company presently employs thirty-seven people, five of whom serve in an executive capacity, 20 in research, quality control and manufacturing, six in maintenance and construction, and six in office and administrative support services. Of the total number of employees, thirty-five are full-time permanent employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its relations with its employees are very good.

## Item 1A. Risk Factors.

Not applicable.

## Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

The Company maintains its principal office and factory, and conducts its research, at a 50,000 square foot facility on a 2.7 acre parcel at 230 Marcus Boulevard, Hauppauge, New York 11788, which the Company owns. Of the 50,000 square feet, approximately 30,000 square feet is manufacturing space, 15,000 square feet is warehouse space, and 5,000 square feet is office and laboratory space. The Company has now fully developed the 2.7 acres, and fully utilizes the building occupying the land. The Company believes that the aforementioned property is adequate for its immediately foreseeable needs. The property is presently unencumbered and is adequately insured.

## Item 3. Legal Proceedings.

On July 10, 2007, the Company received a letter from the Market Regulation Department of the Financial Industry Regulatory Authority (“FINRA”), on behalf of the American Stock Exchange, advising the Company that FINRA was conducting a review of trading activity in the Company's common stock from April 2, 2007 through May 7, 2007. FINRA requested various documents and information related to the Company's earnings announcement on May 8, 2007. The Company provided all of the information that was requested, and on May 2, 2008 FINRA informed the Company that it has concluded its review and referred its findings to the SEC. The letter made clear that the review should not be construed as indicating that any violations of federal securities laws or AMEX Conduct Rules had occurred. The Company has heard nothing further on this matter from either FINRA or the SEC.

By letter dated December 11, 2008 the Company was informed by the SEC that it had reviewed the Company’s annual Form 10-K filing for the fiscal year ended December 31, 2007, as well as its quarterly Form 10-Q filings for the first three quarters of 2008. It had a number of comments and suggestions, most of which were related to the presentation of the Company’s financial statements. On December 29, 2008 the Company responded to the letter, indicating that it would, as requested by the SEC, implement the SEC’s suggestions in future filings, and would also immediately file an amendment to its 2007 Form 10-K to

make a correction to the wording of Item 9A(T). By letter dated January 8, 2009 the SEC notified the Company that it had completed its review and had no further comments, and on that same date the Company filed an amendment to its Form 10-K to make the requested correction.

## Item 4. Submission of Matters to a Vote of Security Holders.

None.

# PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

### Market Information

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

The following table sets forth for the periods indicated the high and low closing sale prices of the shares of Common Stock, as reported by the AMEX Market Statistics or NASDAQ, as applicable, for the period January 1, 2008 to December 31, 2009. The quotations represent prices between dealers and do not include retail markup, markdown or commission:

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

### Holders of Record

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

### Cash Dividends

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

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

# Item 6. Selected Financial Data.

Not applicable.

# Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Critical Accounting Policies

The Company's financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Preparation of financial statements requires the Company to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. The Company uses its historical experience and other relevant factors when developing its estimates and assumptions, which are continually evaluated. Note A, Nature of Business and Summary of Significant Accounting Policies, of the Notes to Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K includes a discussion of the Company's significant accounting policies. The following accounting policies are those that the Company considers critical to an understanding of the financial statements because their application places the most significant demands on the Company's judgment. The Company's financial results might have been different if other assumptions had been used or other conditions had prevailed.

### Marketable Securities and Certificates of Deposit

The Company classifies its marketable securities as available-for-sale at the time of purchase and re-evaluates such designation as of each balance sheet date. The Company's marketable securities include investments in equity mutual funds, government securities, and corporate bonds. The Company's marketable securities and certificates of deposit are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains or losses are determined using the specific-identification method and are insignificant for the years ended December 31, 2009 and 2008. The Company evaluates its investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value had been below cost basis, the financial condition of the issuer and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery of market value. The Company would record an impairment charge to the extent that the cost of the available-for-sale securities or certificates of deposit exceeds the estimated fair value of the securities and the decline in value is determined to be other-than-temporary. During 2009 the Company did not record an impairment charge regarding its investment in marketable securities or certificates of deposit because, based on management's evaluation of the circumstances, management believes that the decline in fair value below the cost of certain of the Company's marketable securities is temporary.

### Revenue Recognition

The Company recognizes revenue when products are shipped, title and risk of loss pass to customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. Any allowances for returns are taken as a reduction in sales within the same period the revenue is recognized. Such allowances are based on historical experience as well as other factors that, in the Company's judgment, could reasonably be expected to cause sales returns or doubtful accounts to differ from historical experience.

### Accounts Receivable Allowance

The Company performs ongoing credit evaluations of the Company's customers and adjusts credit limits, as determined by review of current credit information. The Company continuously monitors collection and payments from customers and maintains an allowance for doubtful accounts based upon historical experience, the Company's anticipation of uncollectible accounts receivable and any specific customer collection issues that have been identified. While the Company's credit losses have historically been low and within expectations, the Company may not continue to experience the same credit loss rates that have historically been attained. The receivables are highly concentrated in a relatively small number of customers. Therefore, a significant change in the liquidity, financial position, or willingness to pay timely, or at all, of any one of the Company's significant customers would have a significant impact on the Company's results of operations and cash flows.

### Inventory Valuation Allowance

In conjunction with the Company's ongoing analysis of inventory valuation, management constantly monitors projected demand on a product-by-product basis. Based on these projections management evaluates the levels of write-downs required for inventory on hand and inventory on order from contract manufacturers. Although the Company believes that it has been reasonably successful in identifying write-downs in a timely manner, sudden changes in buying patterns from customers, either due to a shift in product interest and/or a complete pull back from their expected order levels, may result in the recognition of larger than anticipated write-downs.

## Results Of Operations

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

### Revenue

Revenue in 2009 increased by $984,837 (8.0%) compared with 2008. This increase was primarily attributable to increases in sales in three product lines:

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

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

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

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

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

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

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

## Cost of Sales

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

## Operating Expenses

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

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

## Other Income (Expense)

The Company has interest income from certificates of deposit, money market funds, and bonds, and dividend income from both stock and bond mutual funds. Other income (net) decreased $88,999 (18.4%) for the year ended December 31, 2009, which was mainly attributable to a decrease in investment income of $97,182 in 2009. This decrease was primarily related to a decline in interest rates on certificates of deposit, money market funds, and bonds. The company realized a loss on the sale of fixed assets of $7,763 during 2008, while realizing a gain on the sale of fixed assets of $420 during 2009.

## Provision for Income Taxes

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

## Liquidity and Capital Resources

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

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

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

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

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

Cash used in financing activities was $2,776,663 and $2,728,530 during the years ended December 31, 2009 and 2008, respectively. The increase was primarily due to the increase in the dividend declared in December 2008 (which was paid in January 2009) to $0.28 per share from the $0.27 per share dividend that was declared in December 2007 (and paid in January 2008). The Company believes that its working capital is sufficient to support its operating requirements for the next fiscal year. The Company's long-term liquidity position will be dependent upon its ability to generate sufficient cash flow from profitable operations. The Company has no material commitments for future capital expenditures.

## New Accounting Pronouncements

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

# Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

# Item 8. Financial Statements and Supplementary Data.

Annexed hereto starting on page F-1.

# Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

On July 10, 2009, as directed and approved by the Audit Committee of the Company's Board of Directors, the Company formally dismissed Eisner LLP ("Eisner") as the Company's independent accountant. Eisner had audited the Company's financial statements for the fiscal years ended December 31, 2002 through December 31, 2008. The audit reports of Eisner on the Company's financial statements for the year ended December 31, 2008, and any interim periods up to and including the date our relationship with Eisner ceased, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle. During the period from Eisner's appointment as the Company's independent accountant through the date of this Report, there have been no disagreements with Eisner on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Eisner, would have caused it to make reference to the subject matter of the disagreements in connection with its report. There were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

On July 10, 2009, as directed and approved by the Audit Committee of the Company's Board of Directors, the Company formally retained Holtz Rubenstein Reminick LLP ("Holtz") as the Company's independent accountant, effective immediately. During the two most recent fiscal years and through June 30, 2009, the Company had not consulted with Holtz regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of the Company, as well as any matters or reportable events described in Items 304(a)(2)(i) or (ii) of Regulation S-K.

# Item 9A(T). Controls and Procedures.

(a) **Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Principal Executive Officer and Principal Financial Officer, has evaluated the design, operation, and effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") as of December 31, 2009. On the basis of that evaluation, management concluded that the Company's disclosure controls and procedures are designed, and are effective, to provide reasonable assurance that the information required to be disclosed in reports filed or submitted pursuant to the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and

communicated to management, including its Principal Executive Officer and Principal Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

### (b) **Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control system is designed to provide reasonable assurance to management and to the Company's Board of Directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of management, including the Company's Principal Executive Officer and Principal Financial Officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's evaluation under the framework in *Internal Control—Integrated Framework,* management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

### (c) **Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting that occurred in the fourth quarter of 2009 that materially affected, or would be reasonably likely to materially affect, the Company's internal control over financial reporting.

### (d) **Limitations of the Effectiveness of Internal Controls**

The effectiveness of the Company's system of disclosure controls and procedures and internal control over financial reporting is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the control system, the assumptions used in identifying the likelihood of future events, and the inability to eliminate fraud and misconduct completely. As a result, there can be no assurance that the Company's disclosure controls and procedures and internal control over financial reporting will detect all errors or fraud. However, the Company's control systems have been designed to provide reasonable assurance of achieving their objectives, and the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures and internal control over financial reporting are effective at the reasonable assurance level.

## Item 9B. Other Information.

None

# PART III

## Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference from the section entitled “Directors and Executive Officers” of the Company’s 2010 Proxy Statement.

### Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all officers, directors, and employees serving in any capacity to the Company, including the Principal Executive Officer and/or President, Chief Financial Officer, and Principal Accounting Officer. A copy of the Company's Code of Business Conduct and Ethics is available on the Company's web site at http://www.u-g.com/corporate. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of its Code of Business Conduct and Ethics applicable to Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer by posting this information on the Company's web site.

## Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference from the section entitled "Compensation of Directors and Executive Officers" of the Company's 2010 Proxy Statement.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference from the section entitled "Voting Securities and Principal Stockholders" of the Company's 2010 Proxy Statement.

## Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference from the section entitled Directors and Executive Officers" of the Company's 2010 Proxy Statement.

## Item 14. Principal Accountant Fees and Services.

### Audit Fees

The aggregate fees that have been, or are expected to be, billed by Holtz, the Company’s principal accountant, to the Company for the review and audit of the Company's financial statements for 2009 are approximately $76,000 ($5,000 for each of the two quarterly reviews for the fiscal quarters ended June 30 and September 30, 2009; $65,000 for year-end audit for the fiscal year ended December 31, 2009; and $1,000 for out-of-pocket expenses. The aggregate fees paid to the Company's previous principal accountant, Eisner, for the review of the Company's quarterly financial statements for the quarter ended March 31, 2009 was approximately $12,725. The aggregate fees paid to Eisner for the review and audit of

the Company's financial statements for 2008 were approximately $88,450 ($6,150 for each of the three quarterly reviews for the fiscal quarters ended March 31, June 30, and September 30, 2008; and $70,000 for the year-end audit for the fiscal year ended December 31, 2008.

### Audit-Related Fees

During 2009, Holtz billed the Company $1,662 in fees related to the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX Compliance"). During 2009 Eisner billed the Company $1,575 in fees relating to SOX Compliance. No other fees were billed by Holtz or Eisner for the last two years that were reasonably related to the performance of the audit or review of the Company's financial statements and not reported under "Audit Fees" above.

### Tax Fees

There were no fees billed by Holtz or Eisner during the last two fiscal years for professional services rendered for tax compliance, tax advice, and tax planning. Accordingly, none of such services were approved pursuant to pre-approval procedures or permitted waivers thereof.

### All Other Fees

In 2009 Eisner billed the Company $4,000 for its assistance in responding to a comment letter from the SEC. In 2008 Eisner billed the Company $4,000 for non-audit related matters related to the Company's compliance with Section 404 of the Sarbanes Oxley Act of 2002. There were no non-audit-related fees billed to the company by Holtz in 2009. All of the services described above were approved by the Audit Committee. Accordingly, none of such services were approved pursuant to pre-approval procedures or permitted waivers thereof.

### Pre-Approval Policies and Procedures

Engagement of accounting services by the Company is not made pursuant to any pre-approval policies and procedures. Rather, the Company believes that its accounting firm is independent because all of its engagements by the Company are approved by the Company's Audit Committee prior to any such engagement.

The Audit Committee of the Company's Board of Directors meets periodically to review and approve the scope of the services to be provided to the Company by its independent registered public accounting firm, as well to review and discuss any issues that may arise during an engagement. The Audit Committee is responsible for the prior approval of every engagement of the Company's Independent Registered Public Accounting Firm to perform audit and permissible non-audit services for the Company (such as quarterly reviews, tax matters, consultation on new accounting and disclosure standards, and, in future years, reporting on management's internal controls assessment).

Before the auditors are engaged to provide those services, the Chief Financial Officer and Controller will make a recommendation to the Audit Committee regarding each of the services to be performed, including the fees to be charged for such services. At the request of the Audit Committee, the Independent Registered Public Accounting Firm and/or management shall periodically report to the Audit Committee regarding the extent of services being provided by the Independent Registered Public Accounting Firm, and the fees for the services performed to date.

# Item 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this report.

(i) Financial Statements - see Item 8. Financial Statements and Supplementary Data

(ii) Financial Statement Schedules – None

(Financial statement schedules have been omitted either because they are not applicable, not required, or the information required to be set forth therein is included in the financial statements or notes thereto.)

(iii) Reports of Independent Registered Public Accounting Firms.

(iv) Notes to Financial Statements.

(b) Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of this Annual Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED-GUARDIAN, INC.

By: /s/ Ken Globus
Kenneth H. Globus
President & Director

Date: March 23, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| By: /s/ Kenneth H. Globus<br>Kenneth H. Globus | President, General Counsel, Chairman of the Board of Directors | March 23, 2010 |
| By: /s/ Robert S. Rubinger<br>Robert S. Rubinger | Executive Vice President, Secretary, Chief Financial Officer, Director | March 23, 2010 |
| By: /s/ Henry P. Globus<br>Henry P. Globus | Director | March 23, 2010 |
| By: /s/ Lawrence F. Maietta<br>Lawrence F. Maietta | Director | March 23, 2010 |
| By: /s/ Arthur M. Dresner<br>Arthur M. Dresner | Director | March 23, 2010 |
| By: /s/ Andrew A. Boccone<br>Andrew A. Boccone | Director | March 23, 2010 |
| By: /s/ Christopher W. Nolan, Sr.<br>Christopher W. Nolan, Sr. | Director | March 23, 2010 |

UNITED-GUARDIAN, INC.

EXHIBIT INDEX

| Exhibit # | Description |
|---|---|
| 2 | Certificate of Merger of United-Guardian, Inc. (New York) with and into United-Guardian, Inc. (Delaware) as filed with the Secretary of State of the State of Delaware on September 10, 1987. Incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 29, 1988 (the "1988 10-K"). |
| 3(a) | Certificate of Incorporation of the Company as filed April 22, 1987. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, dated September 21, 1987 (the "1987 8-K"). |
| 3(b) | By-laws of the Company. Incorporated by reference to Exhibit 4.2 to the 1987 8-K. |
| 4(a) | Specimen Certificate for shares of common stock of the Company. Incorporated by reference to Exhibit 4(a) to the 1988 10-K. |
| 10(a) | Qualified Retirement Income Plan for Employees of the Company, as restated April 1, 1976. Incorporated by reference to Exhibit 11(c) of the Registrant's Registration Statement on Form S-1 (Registration No. 2-63114) declared effective February 9, 1979. |
| 10(b) | Employment Termination Agreement dated July 8, 1988 between the Company and Henry Globus. Incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the 10-month transition period from March 1, 1991 to December 31, 1991. |
| 10(c) | Exclusive Distributor Agreement between the Company and ISP Technologies Inc., dated July 5, 2000. Incorporated by reference to Exhibit 10(d) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000. |
| 10(d) | Letter Amendment between the Company and ISP Technologies Inc. dated December 20, 2005 amending the Exclusive Distributor Agreement between the Company and ISP Technologies Inc. dated July 5, 2000. Incorporated by reference to Exhibit 10(d) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005. |
| 21 | Subsidiaries of the Company: |

| Name | Jurisdiction of Incorporation | Name Under Which it does Business |
|---|---|---|
| Dieselite Corporation (Inactive) | Delaware | N/A |

| | |
|---|---|
| 31.1 | Certification of Kenneth H. Globus, President of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Robert S. Rubinger, Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Kenneth H. Globus, President of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Robert S. Rubinger, Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

# INDEX TO FIANCIAL STATEMENTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
United-Guardian, Inc.

We have audited the accompanying balance sheet of United-Guardian, Inc. (the “Company”) as of December 31, 2008, and the related statements of income, stockholders’ equity and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United-Guardian, Inc. as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

UNITED-GUARDIAN, INC.

# STATEMENTS OF INCOME

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

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

# BALANCE SHEETS

## ASSETS

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

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

# BALANCE SHEETS

## LIABILITIES AND STOCKHOLDERS' EQUITY

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

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

# STATEMENTS OF STOCKHOLDERS' EQUITY

## Years ended December 31, 2009 and 2008

| | Common Stock Shares | Common Stock Amount | Capital in excess of par value | Accumulated Other Comprehensive income (loss) | Retained earnings | Treasury stock | Total | Comprehensive income |
|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2008 | 5,008,639 | $ 500,864 | $3,819,480 | $ (120,018) | $ 10,689,400 | $ (359,630) | $14,530,096 | |
| Adjustment for pension termination, net of deferred income tax benefit of $20,725 | | | | (43,142) | | | (43,142) | $ (43,142) |
| Change in unrealized loss on marketable securities, net of deferred income tax benefit of $118,317 | | | | (223,048) | | | (223,048) | (223,048) |
| Net income | | | | | 3,162,931 | | 3,162,931 | 3,162,931 |
| Dividends declared | | | | | (2,720,542) | | (2,720,542) | |
| Comprehensive income | | | | | | | | $ 2,896,741 |
| Balance, December 31, 2008 | 5,008,639 | 500,864 | 3,819,480 | (386,208) | 11,131,789 | (359,630) | 14,706,295 | |
| Adjustment for pension termination, net of deferred income tax benefit of $84,319 | | | | (158,954) | | | (158,954) | $ (158,954) |
| Change in unrealized loss on marketable securities, net of deferred income tax benefit of $105,651 | | | | 199,170 | | | 199,170 | 199,170 |
| Net income | | | | | 3,878,963 | | 3,878,963 | 3,878,963 |
| Dividends declared | | | | | (2,967,863) | | (2,967,863) | |
| Comprehensive income | | | | | | | | $ 3,919,179 |
| Balance, December 31, 2009 | 5,008,639 | $ 500,864 | $3,819,480 | $ (345,992) | $ 12,042,889 | $ (359,630) | $15,657,611 | |

See Notes to Financial Statements

UNITED-GUARDIAN, INC.

# STATEMENTS OF CASH FLOWS

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

See Notes to Financial Statements

# NOTES TO FINANCIAL STATEMENTS

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

### Nature of Business

United-Guardian, Inc. (the "Company") is a Delaware corporation that, through its Guardian Laboratories Division, conducts research, product development, manufacturing and marketing of cosmetic ingredients and other personal care products, pharmaceuticals, medical and health care products, and proprietary specialty industrial products. Two major product lines, LUBRAJEL® and RENACIDIN®, together accounted for approximately 96% and 95% of revenue for the years ended December 31, 2009 and December 31, 2008, respectively. LUBRAJEL accounted for 78% and 77% of revenue for the years ended December 31, 2009 and December 31, 2008, respectively, and RENACIDIN accounted for 18% of revenue in both of the years ended December 31, 2009 and December 31, 2008.

### FASB Accounting Standards Codification

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

### Subsequent Events

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

### Accounts Receivable and Reserves

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

### Revenue Recognition

The Company recognizes revenue when products are shipped, title and risk of loss pass to customers, persuasive evidence of a sales arrangement exists, and collections are reasonably assured. All products are shipped Free On Board (“FOB”) Hauppauge, New York, the location of the Company’s plant. Both title and risk of loss are deemed by both the Company and its customers to have passed to the customers at the time the goods leave the Company’s plant. Shipments are only made after confirmation

that a valid purchase order has been received and that the future collection of the sale amount is reasonably assured. All sales of the Company's products are deemed final, and there is no obligation on the part of the Company to repurchase or allow the return of the goods unless they are defective. The Company does not make sales on consignment, and the collection of the proceeds of the sale is not contingent upon the customer being able to sell the goods to a third party.

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

**Cash and Cash Equivalents**

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

**Dividends**

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

On May 14, 2008, the Company's Board of Directors declared a semi-annual cash dividend of $0.27 per share (aggregating $1,335,539) that was paid on June 16, 2008 to all stockholders of record as of June 2, 2008. On December 3, 2008, the Company's Board of Directors declared a cash dividend of $0.28 per share (aggregating $1,385,003) that was paid on January 5, 2009 to all stockholders of record as of December 15, 2008.

**Supplemental Disclosures of Non-cash Investing and Financing Activities**

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

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

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

**Marketable Securities and Certificates of Deposit**

Marketable securities include investments in equity mutual funds, government securities and corporate bonds, all of which have a high degree of liquidity, are classified as "Available for Sale" securities, and are reported at their fair values. Unrealized gains and losses on "Available for Sale" securities are reported as accumulated other comprehensive income (loss) in stockholders' equity, net of the related tax effects. Investment income is recognized when earned. Realized gains and losses on sales of investments

and declines in value judged to be other than temporary, if any, are reported in other income with cost being determined on a specific identification basis. Fair values are based on quoted market prices. The Company evaluates its investments periodically for possible impairment and reviews factors such as the length of time and extent to which fair value has been below cost basis and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value.

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

**Inventories**

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

**Property, Plant and Equipment**

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

Estimated useful lives are as follows:

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

**Impairment of Long-Lived Assets**

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

**Other Asset**

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

**Fair Value of Financial Instruments**

Management of the Company believes that the fair value of financial instruments, consisting of cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable, dividends payable and accrued expenses approximates their carrying value due to their short payment terms.

**Concentration of Credit Risk**

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

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

**Vendor Concentration**

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

**Income Taxes**

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

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

Through December 31, 2007 the Company filed consolidated Federal income tax returns in the U.S. with its then-existing Eastern Chemical Corporation subsidiary, and separate income tax returns in New York State. The Internal Revenue Service ("IRS") has examined the Company's U.S. income tax returns through 2004. The Company is subject to examination by the IRS for years 2006, 2007, 2008, 2009 and by New York State for years 2006 through 2009.

**Research and Development**

The Company's research and development expenses, included in operating expenses, are recorded in the year incurred. Research and development expenses were approximately $533,000 and $423,000 for the years ended December 31, 2009 and 2008, respectively.

**Shipping and Handling Costs**

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

**Advertising Costs**

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

**Stock-Based Compensation**

In 2004, the Company approved a stock option plan ("2004 Stock Option Plan"). All share-based payments to employees, including grants of employee stock options, are recognized as compensation expense over the requisite service period (generally the vesting period) in the financial statements based on their fair values on grant date. For options with graded vesting, the Company fair values the stock option grants and recognizes compensation expense as if each vesting portion of the award was a separate award. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount of expense recognized. In addition, the realization of tax benefits in excess of amounts recognized for financial reporting purposes will be recognized as a financing activity rather than as an operating activity.

No stock options were granted in 2009 or 2008.

**Earnings Per Share Information**

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

**Use of Estimates**

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

**New Accounting Standards Adopted in Fiscal 2009**

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

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

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

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

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

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

**New Accounting Standards Not Yet Adopted**

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

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

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

## NOTE B - MARKETABLE SECURITIES

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

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

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

| December 31, 2009 | Cost | Fair Value | Unrealized Gain/(Loss) |
|---|---|---|---|
| Available for sale: | | | |
| U.S. treasury and agencies | | | |
| Maturities within 1 year | $ 1,650,218 | $ 1,659,596 | $ 9,378 |
| Maturities after 1 year through 5 years | 1,108,726 | 1,124,527 | 15,801 |
| Total U.S. Treasury and agencies | 2,758,944 | 2,784,123 | 25,179 |
| Corporate bonds | | | |
| Maturities after 1 year through 5 years | 267,251 | 262,846 | (4,405) |
| Fixed income mutual funds | 5,179,005 | 5,181,990 | 2,985 |
| Equity and other mutual funds | 244,786 | 209,798 | (34,988) |
| | $ 8,449,986 | $ 8,438,757 | $ (11,229) |
| December 31, 2008 | | | |
| Available for sale: | | | |
| U.S. treasury and agencies | | | |
| Maturities within 1 year | $ 1,140,227 | $ 1,153,798 | $ 13,571 |
| Maturities after 1 year through 5 years | 2,458,685 | 2,536,931 | 78,246 |
| Total U.S. Treasury and agencies | 3,598,912 | 3,690,729 | 91,817 |
| Fixed income mutual funds | 4,715,827 | 4,380,669 | (335,158) |
| Equity and other mutual funds | 240,494 | 167,785 | (72,709) |
| | $ 8,555,233 | $ 8,239,183 | $ (316,050) |

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

Proceeds from the sale and redemption of U.S. Treasury and agency bonds amounted to $1,135,000 and $1,850,000 for the years ended December 31, 2009 and 2008, respectively. Realized gains or losses in each year were insignificant.

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

## NOTE C - INVENTORIES

Inventories consist of the following:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Raw materials and work-in-process | $ 329,562 | $ 461,437 |
| Finished products | 823,572 | 883,142 |
| | $ 1,153,134 | $ 1,344,579 |

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

## NOTE D – INCOME TAXES

The provision for income taxes consists of the following:

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

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

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | ($) | Tax rate (%) | ($) | Tax rate (%) |
| Income taxes at statutory Federal income tax rate of 34% | $ 1,952,000 | 34 | $ 1,587,000 | 34 |
| State income taxes, net of Federal benefit | 18,000 | --- | 14,000 | --- |
| Domestic Production Activities tax benefit | (95,000) | (2) | (82,000) | (2) |
| Nondeductible expenses | 1,000 | --- | --- | --- |
| Prior year over-accrual | (9,000) | --- | (15,000) | --- |
| Tax exempt income | (6,000) | --- | --- | --- |
| Actual income tax expense | $ 1,861,000 | 32 | $ 1,504,000 | 32 |

During 2009 and 2008, the Company realized the tax benefits of the Domestic Production Activities deduction, which amounted to approximately 6% of net taxable income from domestic production activities.

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

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

## NOTE E - BENEFIT PLANS

### Pension Plan

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

As of December 31, 2007, the Company put in place a freeze on future benefit accruals to the Plan while the Company investigated the advisability of replacing the Plan with a defined contribution plan, which would be coordinated with, and be part of, the Company's existing 401(k) plan. On February 19, 2008, the Company decided to terminate the Plan, subject to regulatory approval, and has begun taking the steps necessary to do so. In November 2008, the Company submitted the necessary applications to the Pension Benefit Guaranty Corporation ("PBGC") and the IRS. The time for the PBGC to respond with any objections has now expired. The only remaining requirement in order to terminate the plan is to receive IRS approval, which the Company expects to receive in 2010.

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

If the net effect of a termination is a gain, the gain is to be recognized when the termination occurs, which would be the date the employees are terminated or the date the pension plan is terminated.

The Plan assets at fair value as of December 31, 2009 and 2008 are as follows:

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

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

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

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

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

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

| Year ending | Expected future benefits payable |
|---|---|
| 2010 | $ 180,000 |
| 2011 | 79,000 |
| 2012 | 49,000 |
| 2013 | 220,000 |
| 2014 | 150,000 |
| 2015-2019 | 750,000 |

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

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

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

## NOTE E - BENEFIT PLANS (continued)

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

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

| | | |
|---|---|---|
| Components of net periodic pension (benefit) cost | | |
| Interest cost | $ 113,864 | $ 176,429 |
| Expected return on Plan assets | (131,315) | (232,109) |
| Amortization of net actuarial loss | 6,659 | --- |
| Effect of special events | --- | 112,552 |
| Net periodic pension (benefit) cost | $ (10,792) | $ 56,872 |
| Other changes recognized in OCI | | |
| Net loss | $ 249,932 | $ 172,348 |
| Amortization of net loss | (6,659) | --- |
| Amount recognized due to special event | --- | (112,552) |
| Total recognized in other comprehensive income | $ 243,273 | $ 59,796 |
| Total recognized in net periodic benefit cost and OCI | $ 232,481 | $ 116,668 |
| Weighted-average assumptions used to determine net period pension (benefit) cost | | |
| Discount rate | 6.25% | 5.75% |
| Expected long-term return on Plan assets | 6.75% | 7.00% |
| Rate of compensation increase | 5.36% | 5.42% |

**401(k) Plan**

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

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

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

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

**Stock Option Plans**

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

There were also no stock option transactions from the expired 1993 Non-Statutory Stock Option Plan for Directors.

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

As of December 31, 2009 and 2008, there was no remaining unrecognized compensation cost related to the non-vested share-based compensation arrangements granted under the Company's plans.

The Company did not record any share-based compensation expense during the years ended December 31, 2009 and 2008.

## NOTE F - EARNINGS PER SHARE

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

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

## NOTE G - GEOGRAPHIC and OTHER INFORMATION

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

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

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

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

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

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

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

**(a) Net Revenues**

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

**(b) Geographic Information**

| | Years ended December 31, 2009 | | 2008 | |
|---|---|---|---|---|
| | Revenues | Long-Lived Assets | Revenues | Long-Lived Assets |
| United States | $ 6,612,165 | $ 946,711 | $ 5,226,825 | $ 951,979 |
| Canada | 1,828,981 | --- | 1,553,940 | --- |
| China | 1,415,533 | --- | 1,204,949 | --- |
| France | 951,241 | --- | 1,347,548 | --- |
| Other countries | 2,469,064 | --- | 2,958,885 | --- |
| | $ 13,276,984 | $ 946,711 | $ 12,292,147 | $ 951,979 |

**(c) Revenue from Major Customers**

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

## NOTE H - CONTINGENCIES

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

## NOTE I - ACCRUED EXPENSES

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

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

## NOTE J - RELATED PARTY TRANSACTIONS

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

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

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