

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

TRANSITION REPORT PURSUANT TO 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

(State or Other Jurisdiction of
Incorporation or Organization)

11-1719724

(I.R.S. Employer Identification No.)

230 Marcus Boulevard, Hauppauge, New York 11788

(Address of Principal Executive Offices)

(631) 273-0900

(Registrant's Telephone Number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 past 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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

- Large accelerated filer
- Non-accelerated filer (Do not check if a smaller reporting company)
- Accelerated filer
- 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

4,596,439 shares of common stock, par value \$.10 per share
(as of November 1, 2010)

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Part I. FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

UNITED-GUARDIAN, INC.

STATEMENTS OF INCOME (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net sales	\$ <u>11,159,860</u>	\$ <u>10,281,426</u>	\$ <u>3,848,393</u>	\$ <u>3,393,139</u>
Costs and expenses:				
Cost of sales	4,261,999	4,137,843	1,450,053	1,317,927
Operating expenses	1,925,438	1,938,293	598,809	540,911
Pension plan termination	847,744	---	---	---
	<u>7,035,181</u>	<u>6,076,136</u>	<u>2,048,862</u>	<u>1,858,838</u>
Income from operations	<u>4,124,679</u>	<u>4,205,290</u>	<u>1,799,531</u>	<u>1,534,301</u>
Other income:				
Investment income	291,100	274,010	65,954	88,927
Gain on sale of assets	---	420	---	420
	<u>291,100</u>	<u>274,430</u>	<u>65,954</u>	<u>89,347</u>
Income from operations before income taxes	4,415,779	4,479,720	1,865,485	1,623,648
Provision for income taxes	<u>1,451,626</u>	<u>1,487,300</u>	<u>621,700</u>	<u>541,900</u>
Net Income	\$ <u>2,964,153</u>	\$ <u>2,992,420</u>	\$ <u>1,243,785</u>	\$ <u>1,081,748</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.62</u>	\$ <u>0.60</u>	\$ <u>0.27</u>	\$ <u>0.22</u>
Weighted average shares – basic and diluted	<u>4,786,183</u>	<u>4,946,439</u>	<u>4,596,439</u>	<u>4,946,439</u>

See notes to condensed financial statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

(UNAUDITED)

<u>ASSETS</u>	SEPTEMBER 30, <u>2010</u> (UNAUDITED)	DECEMBER 31, <u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 1,688,688	\$ 5,021,073
Certificates of deposit	---	1,014,866
Marketable securities	8,826,180	8,438,757
Accounts receivable, net of allowance for doubtful accounts of \$27,000 at September 30, 2010 and December 31, 2009	1,371,527	1,364,886
Inventories (net)	1,150,499	1,153,134
Prepaid expenses and other current assets	139,443	220,815
Deferred income taxes	<u>263,393</u>	<u>443,034</u>
Total current assets	<u>13,439,730</u>	<u>17,656,565</u>
Property, plant and equipment:		
Land	69,000	69,000
Factory equipment and fixtures	3,609,727	3,302,967
Building and improvements	2,618,253	2,541,115
Waste disposal plant	<u>133,532</u>	<u>133,532</u>
	6,430,512	6,046,614
Less: Accumulated depreciation	<u>5,217,898</u>	<u>5,099,903</u>
Total property, plant and equipment, net	<u>1,212,614</u>	<u>946,711</u>
Other assets	<u>84,762</u>	<u>113,016</u>
TOTAL ASSETS	\$ <u>14,737,106</u>	\$ <u>18,716,292</u>

See notes to condensed financial statements

UNITED-GUARDIAN, INC.

BALANCE SHEETS

(continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	SEPTEMBER 30, <u>2010</u> (UNAUDITED)	DECEMBER 31, <u>2009</u>
Current liabilities:		
Dividends payable	\$ ---	\$ 1,582,860
Accounts payable	92,216	322,325
Accrued expenses	598,575	819,194
Pension liability	---	108,892
Income taxes payable	<u>157,303</u>	<u>87,403</u>
Total current liabilities	<u>848,094</u>	<u>2,920,674</u>
Deferred income taxes	<u>58,121</u>	<u>138,007</u>
Stockholders' equity:		
Common stock \$.10 par value; 10,000,000 shares authorized; 4,596,439 and 5,008,639 shares issued, and 4,596,439 and 4,946,439 shares outstanding, at September 30, 2010 and December 31, 2009, respectively	459,644	500,864
Capital in excess of par value	---	3,819,480
Accumulated other comprehensive income (loss)	109,567	(345,992)
Retained earnings	13,261,680	12,042,889
Treasury stock, at cost; 62,200 shares at December 31, 2009	<u>---</u>	<u>(359,630)</u>
Total stockholders' equity	<u>13,830,891</u>	<u>15,657,611</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>14,737,106</u>	\$ <u>18,716,292</u>

See notes to condensed financial statements

UNITED-GUARDIAN, INC.

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	NINE MONTHS ENDED	
	September 30,	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net income	\$ 2,964,153	\$ 2,992,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	176,349	128,544
Realized (gain) loss on sales of marketable securities	(47,080)	633
Gain on sale of equipment	---	(420)
Realized loss on pension termination	338,655	---
Reduction in allowance for bad debts	---	(2,616)
Decrease (increase) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(6,641)	(127,643)
Inventories	2,635	144,829
Prepaid expenses and other current and non-current assets	81,372	(30,464)
Deferred income taxes	37,742	---
Accounts payable	(230,109)	17,910
Accrued expenses and taxes payable	(150,719)	95,361
Pension liability	<u>(108,892)</u>	<u>---</u>
Net cash provided by operating activities	<u>3,057,465</u>	<u>3,218,554</u>
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(413,998)	(28,521)
Proceeds from sale of assets	---	20,000
Proceeds from sales of marketable securities	5,404,428	900,000
Purchases of marketable securities	(5,565,854)	(536,725)
Net change in certificates of deposit	<u>1,014,866</u>	<u>(2,027,503)</u>
Net cash provided by (used in) investing activities	<u>439,442</u>	<u>(1,672,749)</u>
Cash flows from financing activities:		
Acquisition of treasury stock	(3,762,500)	---
Payment of long term debt	---	(6,657)
Dividends paid	<u>(3,066,792)</u>	<u>(2,770,006)</u>
Net cash used in financing activities	<u>(6,829,292)</u>	<u>(2,776,663)</u>
Net decrease in cash and cash equivalents	(3,332,385)	(1,230,858)
Cash and cash equivalents at beginning of period	<u>5,021,073</u>	<u>3,425,538</u>
Cash and cash equivalents at end of period	\$ <u>1,688,688</u>	\$ <u>2,194,680</u>

See notes to condensed financial statements

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

1. 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.

2. Basis of Presentation

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation SX. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods have been included. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of results that ultimately may be achieved for any other interim period or for the year ending December 31, 2010. The interim unaudited financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

3. Stock-Based Compensation

The Company maintains a stock-based compensation plan for its employees and directors, which is more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The Company recognizes the fair value of all share-based payments to employees, including grants of employee stock options, as a compensation expense in the financial statement.

As of September 30, 2010, the Company had no share-based awards outstanding and exercisable and did not grant any options during the nine months ended September 30, 2010.

As of September 30, 2010, there was no remaining unrecognized compensation cost related to the non-vested share-based compensation arrangements granted under the Company's plans.

The Company did not record any compensation expense during the nine- and three-month periods ended September 30, 2010 and 2009.

The Company did not receive any proceeds from the exercise of options during the nine months ended September 30, 2010 and 2009.

4. Recent Accounting Pronouncements

NEW ACCOUNTING STANDARDS ADOPTED IN FISCAL 2010

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

In January 2010, the FASB issued authoritative guidance that will require entities to make new disclosures about recurring or non-recurring fair-value measurements of assets and liabilities, including 1) the amounts of significant transfers, 2) the reasons for any transfers in or out of Level 3, and 3) information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair-value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation of assets and liabilities, and information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair-value measurements. Except for certain detailed Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years, the new guidance became effective for the Company's fiscal 2010 first quarter. The Company did not have transfers of assets and liabilities in or out of Level 1 and Level 2 fair-value measurements and does not have assets and liabilities requiring Level 3 fair-value measurements. The adoption of this disclosure-only guidance is included in Note 5 – Investments and did not have an impact on the Company's financial results.

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

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

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

5. Investments

The fair values of the Company's marketable securities are determined in accordance with GAAP, with fair value being defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair

value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes the three-tier value hierarchy, as prescribed by GAAP, which prioritizes the inputs used in measuring fair value, as follows:

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

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

<u>September 30, 2010</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain/(Loss)</u>
Available for Sale:			
U.S. Treasury and agencies			
Mature within 1 year	\$ 1,102,908	\$ 1,096,334	\$ (6,574)
Mature after 1 year through 5 years	<u>249,136</u>	<u>246,915</u>	<u>(2,221)</u>
Total US Treasury and agencies	1,352,044	1,343,249	(8,795)
Corporate bonds			
Maturities after 1 year through 5 years	267,251	262,067	(5,184)
Fixed income mutual funds	6,791,442	7,001,308	209,866
Equity and other mutual funds	<u>247,755</u>	<u>219,556</u>	<u>(28,199)</u>
	\$ <u>8,658,492</u>	\$ <u>8,826,180</u>	\$ <u>167,688</u>

<u>December 31, 2009</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain/(Loss)</u>
Available for Sale:			
U.S. Treasury and agencies			
Mature within 1 year	\$ 1,650,218	\$ 1,659,596	\$ 9,378
Maturities after 1 year through 5 years	<u>1,108,726</u>	<u>1,124,527</u>	<u>15,801</u>
Total US 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	<u>244,786</u>	<u>209,798</u>	<u>(34,988)</u>
	\$ <u>8,449,986</u>	\$ <u>8,438,757</u>	\$ <u>(11,229)</u>

Proceeds from the sale and redemption of marketable securities amounted to \$5,404,428 for the nine months ended September 30, 2010, which included realized gains of \$47,080. Proceeds, which approximated cost, from the sale and redemption of marketable securities, amounted to \$900,000 for the nine months ended September 30, 2009.

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.

Marketable securities include investments in equity and fixed-income mutual funds, government securities and corporate bonds which 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 are determined on a specific identification basis.

6. Inventories - Net

	September 30, 2010	December 31, 2009
Inventories consist of the following:		
Raw materials and work in process	\$ 459,924	\$ 329,562
Finished products	<u>690,575</u>	<u>823,572</u>
	<u>\$ 1,150,499</u>	<u>\$ 1,153,134</u>

Finished product inventories at September 30, 2010 and December 31, 2009 are stated net of a reserve of \$39,000 for slow moving obsolete inventory.

7. Supplemental Financial Statement Information

For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Cash payments for taxes were \$1,525,300 and \$1,333,420 for the nine months ended September 30, 2010 and September 30, 2009, respectively. No payments were made for interest during these periods.

The Company paid \$3,066,792 (\$0.62 per share) and \$2,770,006 (\$0.56 per share) in dividends for the nine months ended September 30, 2010 and September 30, 2009, respectively.

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

Research and development expenses amounted to \$466,441 and \$400,928 for the nine months ended September 30, 2010 and September 30, 2009, respectively, and are included in operating expenses.

8. Income Taxes

The Company's tax provision is based on its estimated annual effective rate. The Company continues to fully recognize its tax benefits, which are offset by a valuation allowance to the extent that it is more likely than not that the deferred tax assets will not be realized. As of September 30, 2010 and December 31, 2009 the Company did not have any unrecognized tax benefits.

The Company files consolidated Federal income tax returns in the U.S. with its inactive subsidiary, and separate income tax returns in New York State. The Company is subject to examination by the Internal Revenue Service and by New York State for years 2007 through 2009.

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

9. Comprehensive Income

The components of comprehensive income are as follows:

	Nine months ended September 30,		Three months ended September 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net income	\$ <u>2,964,153</u>	\$ <u>2,992,420</u>	\$ <u>1,243,785</u>	\$ <u>1,081,748</u>
Other comprehensive income				
Unrealized gain on marketable securities during period	178,917	329,700	115,031	182,923
Adjustment for pension termination	518,296	---	---	---
Income tax expense related to other comprehensive income	<u>(241,654)</u>	<u>(114,274)</u>	<u>(39,870)</u>	<u>(63,401)</u>
Other comprehensive income, net of tax	<u>455,559</u>	<u>215,426</u>	<u>75,161</u>	<u>119,522</u>
Comprehensive income	\$ <u>3,419,712</u>	\$ <u>3,207,846</u>	\$ <u>1,318,946</u>	\$ <u>1,201,270</u>

Accumulated other comprehensive income comprises unrealized gains and losses on marketable securities and liability for pension benefit net of the related tax effect.

10. Defined Benefit Pension Plan and New Defined Contribution Plan.

Defined Benefit Pension Plan: The Company previously sponsored a non-contributory defined benefit plan ("DB Plan") for its employees. The Company curtailed future benefit accruals to the DB Plan, which had been frozen since December 31, 2007. In March 2010, the Company received regulatory approval to terminate the DB Plan, and on July 13, 2010 the DB Plan was formally terminated. The termination resulted in the Company recognizing a one-time non-cash expense of \$518,296, offset by a \$179,641 tax benefit associated with recognizing unamortized actuarial losses. In addition, the Company provided for a cash contribution of \$337,378, offset by a \$116,900 tax benefit, in order to fully fund the DB Plan. The recognition of the non-cash and cash contributions resulted in a before-tax charge of \$847,744, and an after-tax charge of \$559,133 (\$0.12 per share) for the nine-month period ended September 30, 2010. Since the non-cash expense had previously been provided for as a charge to other comprehensive income, the net effect of the termination on stockholders' equity was a decrease of \$220,478.

Defined Contribution Plan: As a result of the discontinuation of its DB Plan, effective January 1, 2008 the Company modified its 401(k) defined contribution plan ("DC Plan") by increasing the employer matching contribution to a maximum of 100% of the first 4% of each employee's pay. In 2009, the Company also 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. In the three-month period ended March 31, 2010 the Company had provided for a discretionary contribution of \$43,750 to the DC Plan, but, as a result of the unexpected costs the Company incurred in terminating the DB Plan, the Company reversed that provision in the second quarter of 2010. Thus, the Company does not currently have any provisions for discretionary contributions to the DC Plan for FY-2010. For the nine-month period ended September 30, 2009 the Company had provided for a contribution of \$131,250 to the DC Plan.

11. Other Information

(a) Accrued Expenses

	September 30, <u>2010</u>	December 31, <u>2009</u>
Accrued bonuses	\$ 90,000	\$ 182,000
Accrued distribution fees	171,900	303,493
Other	<u>336,675</u>	<u>333,701</u>
	\$ <u>598,575</u>	\$ <u>819,194</u>

(b) Related Party Transactions

During each of the nine-month periods ended September 30, 2010 and September 30, 2009, the Company paid to Henry Globus, a former officer and current director of the Company, \$16,722, for consulting services in accordance with his employment termination agreement of 1988.

During the nine-month periods ended September 30, 2010 and September 30, 2009, the Company paid to Bonamassa, Maietta and Cartelli, LLP \$13,500 and \$13,000, respectively, for accounting and tax services. Lawrence Maietta, a partner in Bonamassa, Maietta and Cartelli, LLP, is a director of the Company.

On May 28, 2010 the Company redeemed and retired 350,000 shares of its stock from its largest shareholder and President, Kenneth H. Globus, at \$10.75 per share, for a total of \$3,762,500.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Statements made in this Form 10-Q which are not purely historical are forward-looking statements with respect to the goals, plans, objectives, intentions, expectations, financial condition, results of operations, future performance and business of the Company. Forward-looking statements may be identified by the use of such words as "believes", "may", "will", "should", "intends", "plans", "estimates", "anticipates", or other similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our control) could cause actual results to differ materially from those set forth in the forward-looking statements. In addition to those specific risks and uncertainties set forth in the Company's reports currently on file with the SEC, some other factors that may affect the future results of operations of the Company are: the development of products that may be superior to those of the Company; changes in the quality or composition of the Company's products; lack of market acceptance of the Company's products; the Company's ability to develop new products; general economic or industry conditions; changes in intellectual property rights; changes in interest rates; new legislation or regulatory requirements; conditions of the securities markets; the Company's ability to raise capital; changes in accounting principles, policies or guidelines; financial or political instability; acts of war or terrorism; and other economic, competitive, governmental, regulatory and technical factors that may affect the Company's operations, products, services and prices.

Accordingly, results actually achieved may differ materially from those anticipated as a result of such forward-looking statements, and those statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

OVERVIEW

The Company is a Delaware corporation that conducts research, product development, manufacturing and marketing of cosmetic ingredients, personal and health care products, pharmaceuticals, and specialty industrial products. All of the products that the Company manufactures, with the exception of its RENACIDIN IRRIGATION[®], are produced at its facility in Hauppauge, New York, and are marketed through marketing partners, distributors, wholesalers, direct advertising, mailings, and trade exhibitions. Its most important personal care product line is its LUBRAJEL[®] line of water-based moisturizing and lubricating gels. It also sells two pharmaceutical products for urological uses. Those products are sold primarily through the major drug wholesalers, which in turn sell the products to pharmacies, hospitals, nursing homes and other long-term care facilities, and to government agencies, primarily the Veteran's Administration.

The Company's pharmaceutical products are distributed primarily in the United States. Its personal care products are marketed worldwide by five marketing partners, of which International Specialty Products Inc. ("ISP") purchases the largest volume of products from the Company. Approximately one-half of the Company's personal care products are sold, either directly or through the Company's marketing partners, to end-users located outside of the United States.

While the Company does have competition in the marketplace for some of its products, many of its products are either unique in their field or have some unique characteristics, and therefore are not in direct competition with the products of other pharmaceutical, specialty chemical, or health care companies. Many of the Company's products are manufactured using patented or proprietary processes. The Company's research and development department is actively working on the development of new products to expand the Company's line of personal care and performance products.

The Company recognizes revenue when products are shipped, title and risk of loss pass to the customers, persuasive evidence of a sales arrangement exists, and collections are reasonably

assured. An allowance for returns, based on historical experience, is taken as a reduction of sales within the same period the revenue is recognized.

The Company has been issued many patents and trademarks and intends, whenever possible, to make efforts to obtain patents in connection with its product development program.

CRITICAL ACCOUNTING POLICIES

As disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, the discussion and analysis of the Company's financial condition and results of operations are based on its financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of those financial statements required the Company to make estimates and assumptions that affect the carrying value of assets, liabilities, revenues and expenses reported in those financial statements. Those estimates and assumptions can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. The Company's most critical accounting policies relate to revenue recognition, concentration of credit risk, inventory, pension costs, patents, and income taxes. Since December 31, 2009, there have been no significant changes to the assumptions and estimates related to those critical accounting policies, other than the costs related to the settlement and termination of the Company's DB Plan.

The following discussion and analysis covers material changes in the financial condition of the Company since the year ended December 31, 2009, and a comparison of the results of operations for the nine and three months ended September 30, 2010 and September 30, 2009. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis or Plan of Operation" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

RESULTS OF OPERATIONS

Sales

Net sales for the nine-month period ended September 30, 2010 increased \$878,434 (8.5%) as compared with the corresponding period in 2009, and net sales for the three-month period ended September 30, 2010 increased \$455,254 (13.4%) as compared with the comparable period ended September 30, 2009. The changes in net sales for both the nine- and three-month periods ended September 30, 2010 were principally attributable to changes in sales of the following product lines:

- (a) **Pharmaceuticals:** Pharmaceutical sales for the nine months ended September 30, 2010 decreased \$183,861 (8.1%) compared with the same period in 2009, and pharmaceutical sales for the three months ended September 30, 2010 increased \$89,166 (14.7%) when compared with the three months ended September 30, 2009. The decrease in the nine-month sales for 2010 compared with 2009 was the result of a price increase that was implemented on May 1, 2009, which caused a significant increase in sales in April 2009 as customers purchased additional inventory in anticipation of the price increase. The Company implemented a price increase on April 1, 2010, but the increase in sales prior to the effective date of the 2010 increase was much smaller than it was in 2009. As a result, 2010 sales of these products are gradually approaching 2009 levels. Since the annual unit sales volume of these products is relatively stable from year-to-year, the Company estimates

that the dollar value of pharmaceutical sales in calendar 2010 will increase as a result of the price increase that occurred in April 2010.

- (b) **Personal care products:** For the nine months ended September 30, 2010, the Company's sales of personal care products increased by \$1,020,082 (16.9%) when compared with the nine months ended September 30, 2009. For the three months ended September 30, 2010, the Company's sales of personal care products increased by \$120,117 (5.0%) when compared with the three months ended September 30, 2009. These increases were primarily the result of sales increases in 2010 to the Company's two largest marketing partners, ISP and Sederma. For the nine- and three-month periods ended September 30, 2010, sales to ISP increased by \$682,993 (14.8%) and \$247,571 (13.8%), respectively, compared with the corresponding periods in 2009. Sales to Sederma increased by \$296,463 (49.9%) for the nine-month period ended September 30, 2010, but decreased by \$152,168 (47.3%) for the three-month period ended September 30, 2010, compared with the corresponding periods in 2009. The Company believes that these changes are due primarily to inconsistencies in Sederma's ordering pattern.
- (c) **Medical (non-pharmaceutical) products:** Sales of the Company's medical products decreased by \$199,984 (9.3%) for the nine-month period ended September 30, 2010, when compared with the corresponding period ended September 30, 2009. For the three months ended September 30, 2010, the Company's sales of medical products increased by \$214,300 (49.0%) when compared with the three months ended September 30, 2009. These changes are primarily due to one of the Company's customers that concentrated all of its 2009 purchases into the first six months of 2009 prior to moving a production facility in late 2009. That customer's purchases have been more evenly distributed in 2010, resulting in higher sales of these products in the second half of 2010 when compared with the second half of 2009.

In addition to the above changes in sales, for the nine- and three-month periods ended September 30, 2010, net sales allowances decreased \$187,755 (69.3%) and \$11,281 (13.3%), respectively, when compared with the corresponding periods in 2009. The decreases were due to decreases in allowances for distribution fees.

Cost of Sales

Cost of sales as a percentage of sales decreased to 38.2% for the nine months ended September 30, 2010 from 40.2% for the comparable period in 2009. For the three months ended September 30, 2010, cost of sales as a percentage of sales decreased to 37.7% from 38.8% for the comparable period in 2009. The decreases in cost of sales as a percentage of sales were primarily due to increased sales of higher margin products, and a decrease in sales of one of its lower-margin products in the first nine months of 2010 compared with the same period in 2009.

Operating Expenses

Operating expenses consist of selling, general and administrative expenses. Operating expenses decreased \$12,855 (0.7%) for the nine-month period ended September 30, 2010 and increased \$57,898 (10.7%) for the three-month period ended September 30, 2010 compared with the comparable periods in 2009. The increase for the three-month period ended September 30, 2010 was primarily due to increases in depreciation and payroll related costs.

Defined Benefit Pension Plan Termination

On July 13, 2010, the Company terminated its DB Plan. The termination resulted in the Company recognizing a one-time non-cash expense of \$518,296, offset by a \$179,641 tax benefit associated with recognizing unamortized actuarial losses. In addition, the Company provided for a cash contribution of \$337,378, offset by a \$116,900 tax benefit, in order to fully fund the DB Plan. The recognition of the non-cash and cash contributions resulted in a before-tax charge of \$847,744, and an after-tax charge of \$559,133 (\$0.12 per share) for the nine-month period ended September 30, 2010. Since the non-cash expense had previously been provided for as a charge to other comprehensive income, the net effect of the termination on stockholders' equity was a decrease of \$220,478.

Other Income

For the nine- and three-month periods ended September 30, 2010, investment income increased \$17,090 (6.2%) and decreased \$22,973 (25.8%), respectively, when compared with the comparable periods in 2009. The increase for the nine-month period was attributable primarily to capital gains realized on the sale of marketable securities. The decrease for the three-month period was mainly attributable to a decline in interest rates, lower interest-earning cash balances, and lower returns on investments.

Provision for Income Taxes

For the nine- and three-month periods ended September 30, 2010, the provision for income taxes decreased by \$35,674 (2.4%) and increased by \$79,800 (14.7%), respectively, when compared with the comparable periods in 2009. These changes were primarily due to changes in income before taxes.

The Company's effective income tax rate was approximately 33.0% for all periods presented.

LIQUIDITY AND CAPITAL RESOURCES

Working capital decreased by \$2,144,255 to \$12,591,636 at September 30, 2010 from \$14,735,891 at December 31, 2009. The decrease in working capital was primarily due to the acquisition by the Company of 350,000 shares of Company stock from the Company's largest shareholder. The current ratio increased to 15.8 to 1 at September 30, 2010 from 6.0 to 1 at December 31, 2009. The increase in the current ratio was primarily due to the effect of a decrease in dividends payable, partially offset by other changes in working capital items.

During the nine-month period ended September 30, 2010, the average period of time that an account receivable was outstanding was approximately 33 days. The average period of time that an account receivable was outstanding during the nine-month period ended September 30, 2009 was 39 days.

The Company believes that its working capital is and will continue to be sufficient to support its operating requirements for at least the next twelve months. The Company does not expect to incur any significant capital expenditures for the remainder of 2010.

The Company generated cash from operations of \$3,057,465 and \$3,218,554 for the nine months ended September 30, 2010 and September 30, 2009, respectively. The decrease was

primarily due to decreases in accounts payable and accrued expenses partially offset by an increase in prepaid expenses and other current assets.

Cash provided by investing activities for the nine-month period ended September 30, 2010 was \$439,442, while cash used in investing activities was \$1,672,749 for the nine-month period ended September 30, 2009. This increase was primarily due to the redemption of certificates of deposit.

Cash used in financing activities was \$6,829,292 and \$2,776,663 for the nine months ended September 30, 2010 and September 30, 2009, respectively. This increase was mainly due to the acquisition of treasury stock from the President of the Company.

The Company expects to continue to use its cash to make dividend payments, to purchase marketable securities, and to take advantage of other opportunities that are in the best interest of the Company, should they arise.

RECENT ACCOUNTING PRONOUNCEMENTS

Please see Note 4 to the Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and the anticipated impact on the financial statements.

OFF-BALANCE-SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 4T. CONTROLS AND PROCEDURES

(a) DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, including its Principal Executive Officer and Principal Financial Officer, has evaluated the design, operation, and effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the evaluation performed by the Company's management, including its Principal Executive Officer and Principal Financial Officer, it was determined that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the 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 the Company's management, including its Principal Executive Officer and Principal Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosures.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Principal Executive Officer and Principal Financial Officer have determined that, during the period covered by this quarterly report, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. They have also concluded that there were no significant changes in the Company's internal controls after the date of the evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

- 31.1 Certification of Kenneth H. Globus, President and principal executive officer 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 and principal executive officer 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.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED-GUARDIAN, INC.
(Registrant)

By: /S/ KENNETH H. GLOBUS
Kenneth H. Globus
President

By: /S/ ROBERT S. RUBINGER
Robert S. Rubinger
Chief Financial Officer

Date: November 10, 2010