HYDRON TECHNOLOGIES INC
Form 10-Q
May 10, 2005

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

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended: March 31, 2005

or

[_] Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Period from __________ to __________

Commission File Number: 0-6333

HYDRON TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

New York	13-1574215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2201 West Sample Road, Building 9, Suite 7B Pompano Beach, FL 33073	(954) 861-6400
(Address of Principal Executive Offices)	(Registrant's telephone number)

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. [X] Yes [_] No.

Number of shares of common stock outstanding as of May 9, 2005: 9,320,336

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HYDRON TECHNOLOGIES, INC.

Condensed Consolidated Balance Sheets

	March 31, 2005 (unaudited)	December 31, 20 Note
ASSETS		
Current Assets		
Cash and cash equivalents	$ 213,347	$ 339,679
Trade accounts receivable	1,518	9,614
Accounts Receivable, affiliates	--	--
Inventories	479,223	481,996
Prepaid expenses and other current assets	42,046	67,190
Total current assets	736,134	898,479
Property and equipment, less accumulated depreciation of $210,574 and $209,329 at 2005 and 2004, respectively	11,428	12,673
Deposits	19,587	19,587
Investment in affiliates	--	--
Deferred product costs, less accumulated amortization of $170,027 and $162,135 at 2005 and 2004, respectively	170,027	162,135
Total Assets	$ 937,176	$ 1,092,874

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	42,336	$ 90,440
Loans payable	379	751
Royalties payable	27,751	29,132
Deferred revenues	141,572	91,180
Accrued liabilities	229,966	229,953
Total current liabilities	442,004	441,456
Commitments and contingencies		
Minority interest in consolidated partnership	276,646	285,191
Shareholders' equity		
Preferred stock - $.01 par value 5,000,000 shares authorized; no shares issued or outstanding	--	--
Common stock - $.01 par value 30,000,000 shares authorized; 9,320,336 shares issued and 9,320,336 shares outstanding at 2005; and 2004, respectively	93,203	93,203
Additional paid-in capital	20,736,049	20,736,049
Accumulated deficit	(20,591,145)	(20,427,661)
Treasury stock, at cost 10,000 at 2005 and 2004	(7,816)	(7,816)
Total Shareholders' equity	230,291	393,775
Total liabilities and shareholders equity	$ 948,941	$ 1,120,422

Note: The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes to condensed consolidated financial statements

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HYDRON TECHNOLOGIES, INC.

Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended March 31, 2005	2004
Net sales	$ 255,914	$ 386,132
Cost of sales	97,259	157,630
Gross profits	158,655	228,502
Expenses		
Royalty expense	7,725	11,967
Research and development	38,970	64,745
Selling, general & administration	275,274	309,031
Depreciation & amortization	9,137	8,550

Total expenses	331,106	394,293
Operating loss	(172,452)	(165,791)
Interest income - net of interest expense	422	820
Loss before income taxes	(172,030)	(164,971)
Minority interest in net loss	8,545	--
Income taxes expense	--	--
Net loss	$ (163,484)	$ (164,971)
Basic and diluted loss per share		
Net loss per common share	$ (0.02)	$ (0.02)
Weighted average shares outstanding (basic and diluted)	9,320,336	9,260,136

See accompanying notes to condensed consolidated financial statements.

HYDRON TECHNOLOGIES, INC.

Condensed Consolidated Statements of Cash Flow
(Unaudited)

	Three Months ended March 31, 2005	2004
Operating activities		
Net loss	$(163,484)	$(164,971)
Adjustments to reconcile net loss to net cash used by operating activities		
Minority Interest	(8,545)	--
Depreciation and amortization	9,137	8,550
Change in operating assets and liabilities		
Trade accounts receivables	8,096	8,366
Inventories	2,773	4,501
Prepaid expenses and other current assets	25,143	15,306
Deposits	--	--
Accounts payable	(48,104)	60,204
Royalties payable	(1,381)	11,967
Deferred revenues	50,392	(26,198)
Accrued liabilities	13	2,991
Net cash used in operating activities	(125,960)	(79,284)

Investing activities		
Capital expenditures, net	--	--
Deferred product costs	--	--
Net cash used in investing activities	--	--
Financing activities		
Payment on loan payable	(372)	(942)
Net decrease in cash and cash equivalents	(126,332)	(80,226)
Cash and cash equivalents at beginning of period	339,679	964,723
Cash and cash equivalents at end of period	$ 213,347	$ 884,497

See accompanying notes to condensed consolidated financial statements.

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Hydron Technologies, Inc.
Notes to Condensed Consolidated Financial Statements

Note A -- Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Hydron Technologies, Inc. (the "Company"), all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note B - Inventories

Inventories consist of the following:

	March 31, 2005	December 31, 2004
Finished Goods	$ 95,724	$ 93,312
Raw materials and components	383,499	388,684
	$479,223	$481,996

Note C - Distribution

The majority of the Company's products are currently sold in the United States through the Company's direct marketing channels (proprietary Catalog and the World Wide Web site). The Company also sells its products to private label customers, television retailers and, to a lesser extent, internationally through salons and doctors offices.

Note D - Earnings Per Share

On January 25, 2005, the Board of Directors, by unanimous consent, re-authorized the issuance of 743,500 stock options from the 2003 Stock Plan to Directors and Officers of the Company. Since the original approval date was more than 12 months before the shareholder adoption of the 2003 Stock Plan, the options had to be re-authorized to include them under the plan.

There were no options granted to employees during the three months ended March 31, 2005 that would require adjustments to the pro forma information regarding net income and earnings per share required by FASB Statement No. 123.

Note E - Accrued Liabilities

Accrued liabilities represent expenses that apply to the reported period and have not been billed by the provider or paid by the Company. Accrued liabilities consisted of the following:

	March 31, 2005	December 31, 2004
Dividends payable	$ 83,163	$ 83,163
Director fees payable	86,017	81,016
Legal fees	31,600	40,754
Other	29,186	25,020
	$229,966	$229,953

Note F - Going Concern

The accompanying condensed financial statements were prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of operations.

The Company anticipates that present working capital balances and internally generated funds will be sufficient to meet our working capital needs for the next three months and maybe longer based on management decisions and sales. Beyond that point, it will be necessary to consummate a merger, sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

Hydron Technologies, Inc.
Notes to Condensed Consolidated Financial Statements

Note F - Going Concern (continued)

On January 28, 2005, the Company entered into a marketing agreement with Clinical Results, Inc. and Bioceutical Research, Inc. to license its technology and the Hydron branded products, respectively. Any impact on cash flow is not expected to be realized for six to nine months. In addition, the Company has lowered its operating expenses by reducing research and development and payroll costs.

The Company is considering several additional options to resolve the negative cash flow, including merging with parties that have a broad channel of distribution, forming a new private entity and transferring the operating assets to it, then selling the public shell, and selling one or more selected assets. One of these alternatives and/or an infusion of additional capital will be required in order to generate the cash required in the short term.

Accordingly, there are no assurances that the Company will be successful in achieving the above plans, or that such plans, if consummated, will enable the Company to obtain profitable operations or continue as a going concern.

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

Business

The Company's primary focus has been to conduct research and development into products and medical applications utilizing its patented tissue oxygenation technology.

The Company's research and development efforts during 2004 concentrated on accumulating data for a Food and Drug Administration (FDA) application related to the Company's oxygenation technology. A formal Request For Designation (RFD) was filed with the FDA in September 2004 to request that the FDA formally designate the Hydron MicroO2 Oxygenation Apparatus as a medical device. The FDA agreed in October. On January 10, 2005, the Company attended a Pre-Investigational Device Exemption meeting with the FDA to present the device, however, a clear pathway for safety and clinical research requirements could not be determined at that time. It was suggested that filing a complete 510(k) application would provide the FDA with an opportunity to review additional information from Hydron. The Company is considering if and when to pursue the 510(k) filing.

The Company's other proprietary technologies include: patented polymer skin care formulas that provide superior skin moisturization benefits and sunscreen delivery; a patented formula for a wrinkle reduction serum, and, patent-pending technology associated with an evaporating emulsifier used in cosmetic treatments and acne products.

The Company also markets a broad range of cosmetic and oral health care products using a moisture-attracting ingredient (the "Hydron(R) polymer") and a topical delivery system for active ingredients, including pharmaceuticals. The Company holds U.S. and international patents on, what Management believes is, the only known cosmetically acceptable method to suspend the Hydron polymer in a stable emulsion for use in personal care/cosmetic products. The Company is developing other personal care/cosmetic products for consumers using its patented technology and would, when appropriate, either seek licensing arrangements with third parties, or develop and market proprietary products through its own efforts. Management believes that because of their unique properties, products that utilize the Hydron polymer have the potential for wide acceptance in consumer and professional health care markets.

Catalog Sales - The Company's full-color brochure offers personal care products for sale directly to consumers. The brochure also provides information on new products, educates consumers on proper skin care, and facilitates consumer re-ordering. The Company sells its products on the World Wide Web and regularly transmits E-mail broadcasts to its customer base. The Company is continuing to explore new ways to enhance Catalog sales and operations through retail distribution of its brands and formula technologies.

Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

Private Label Contracting - Effective March 1, 2001, the Company entered into an agreement with Reliv International, Inc ("Reliv") to develop and manufacture a line of private label skin care products under their brand name, ReversAge(R). Reliv is a public company traded on NASDAQ (symbol RELV). Private label sales represented approximately 19.2% of Hydron's total annual sales in 2004. Private label sales accounted for 16.8% of total sales during the three months ended March 31, 2005.

International - The Company sells products to an Australia-based health and beauty products distributor for retail sale in salon stores and medical offices in Australia and New Zealand. The Company also distributes dental products in Spain and, to a lesser extent, other countries. Although this category is not significant at this time, Management believes that it will expand with the introduction of the Company's brands and technologies through retail distribution channels.

Retail - The Company has established minor levels of retail distribution. Initially, the Company sold product on a limited, promotional basis to several retailers utilizing excess inventory and current packaging configurations. It is anticipated that any significant retail effort involving core Hydron products would require investment in repackaging.

Licensing - Effective January 28, 2005, the Company entered into a non-exclusive licensing agreement with Clinical Results, Inc. ("CRI"), which allows for certain Hydron cosmetic skincare technologies, sold and manufactured by CRI, to be offered to third parties under private label contracts. The Company receives royalties based on wholesale sales by CRI to its customers. The agreement includes the patented Hydron polymer and sunscreen technology, patented line smoothing technology, and patent-pending emulsifier technology.

Effective January 28, 2005 Hydron licensed Bioceutical Research, Inc. ("BRI") the non-exclusive right to market Hydron(R) and Hydronamins(R) branded products to retail accounts, including drug stores, mass-merchandisers, club stores, and salon/spa accounts. BRI will pay Hydron royalties on wholesale sales while undertaking responsibility for manufacturing, marketing, and sales.

Results of Operations

Total net sales for the three months ended March 31, 2005 were $255,914, a decrease of $130,218 or 33.7% from net sales of $386,132 for the three months ended March 31, 2004. Skin care products' net sales for the three months ended March 31, 2005 were $225,644, a decrease of $125,213 or 35.7% from sales of $350,857 for the three months ended March 31, 2004. Professional products' net sales for the three months ended March 31, 2005 were $1,188, a decrease of $2,212 or 65.1% from sales of $3,400 for the three months ended March 31, 2004. Shipping and handling revenues for the three months ended March 31, 2005 were $27,641, a decrease of $2,409 or 8.0% from shipping and handling revenues of $30,050 for the three months ended March 31, 2004. The decrease in catalog sales was the result of the slow attrition of the Company's customer base without marketing spending to replace those customers.

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Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

Skin care products sales consist primarily of catalog sales and private label sales. During the three months ended March 31, 2005, direct marketing catalog sales decreased by $40,852, or 17.9%, from $228,474 for the three months ended March 31, 2004, to $187,622. Private label sales for the three months ended March 31, 2005 were $38,021, a decrease of $84,362, or 68.9%, from $122,383 for the three months ended March 31, 2004. These sales tend to fluctuate from quarter to quarter as purchase orders cover more than one year's supply and products in the line are purchased only approximately four to six times a year.

Historically, over 98% of the Company's products are sold in the United States. The Company sells skin care products in Australia and dental products in Spain and Canada. These sales are not material at this time and represented 0.0% and 0.0% of total sales for the three months ended March 31, 2005 and 2004, respectively.

Cost of sales was $97,259 for the three months ended March 31, 2005, a decrease of $60,371, or 38.3%, from cost of sales of $157,630 for the three months ended March 31, 2004. Cost of sales was 38.0% of total sales the three months ended March 31, 2005, compared to 40.8% for the three months ended March 31, 2004. The decrease in the cost of sales percentage reflects the shift in product mix to higher-margin catalog sales relative to private label sales for the quarter. Shipping and handling costs for the first quarter of 2005 were $27,641, a decrease of $2,409, or 8.0%, from shipping and handling cost of $30,050 for the same period in 2004. This decrease reflects the decline in catalog sales plus savings realized by performing more of the shipping and handling tasks in-house.

The Company's overall gross profit margin increased to 62.0% of net sales for the three months ended March 31, 2005, versus 59.2% for the three months ended March 31, 2004. The increase in gross margin reflects the shift in product mix to higher margin catalog sales relative to private label sales for the quarter.

Royalty expenses for the three months ended March 31, 2005 were $7,725; a decrease of $4,242, or 35.4%, from royalty expenses of $11,967 for the three months ended March 2004. The decrease in royalty expenses is consistent with the decrease in skin care product sales for the same period.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, obtain regulatory approval, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, and conduct consumer panel studies and focus groups. R&D expenses for the three months ended March 31, 2005 were $38,970 a decrease of $25,775, or 39.8%, from R&D expenses of $64,745 for the three months ended March 31, 2004. This decrease is due principally to the Company's reduced use of outside FDA consultants in association with its oxygenation technology during the first quarter 2005 versus 2004. The amount of annual R&D expenses will vary year to year depending on the Company's research requirements.

Selling, general, and administrative ("SG&A") expenses for the three months ended March 31, 2005 were $275,274, representing a decrease of $33,757, or 10.9%, from SG&A expenses of $309,031 for the three months ended March 31, 2004. Employment expense was $131,044 for the three months ended March 31, 2005, a decrease of $3,982, or 2.9%, from $135,026 for the three months ended March 31, 2004. This decrease was due primarily to the elimination of a managerial position in order to control operating costs. Postage expense was $11,041 for the three months ended March 31, 2005, a decrease of $6,177, or 35.9%, from $17,218 for the three months ended March 31, 2004. This decrease was related principally to a new catalog marketing strategy, which reduces mailing frequency to customers who have not purchased in the last 24 months. All other expenses were $133,189 for the three months ended March 31, 2005, a decrease of $23,598, or 15.0%, from $156,787 for the three months ended March 31, 2004.

Depreciation and amortization expense was $9,137 for the three months ended March 31, 2005, an increase of $587, or 6.8%, from $8,550 for the three months ended March 31, 2004.

Net interest income was $422 for the three months ended March 31, 2005, compared to net interest income of $820 for the three months ended March 31, 2004. The Company maintains a conservative investment strategy with respect to its cash balances, deriving investment income primarily from U.S. Treasury securities.

The Company had a net loss of $163,484, representing a decrease of $1,487, or 0.9%, for the three months ended March 31, 2005, from a net loss of $164,971 for the three months ended March 31, 2004, a result primarily of the factors discussed above.

Liquidity and Financial Resources

The Company anticipates that present working capital balances and internally generated funds will be sufficient to meet its working capital needs for the next three months, perhaps longer based on management decisions and order flow. Beyond that point, it will be necessary to consummate a merger, sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

The Company's working capital was approximately $294,130 for the three months ended March 31, 2005, including cash and cash equivalents of approximately $213,347. Cash used by operating activities was $125,960. Net funds used for financing activities were $372.

Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

The Company does not have any material debt, long-term capital leases, or long-term operating leases. The lease on the current office facility expires August 31, 2005 and the Company expects to renew the lease on a short-term basis. There are no capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

The Company completed a non-brokered private placement of 1,750,000 Units at $.20 per Unit ($350,000), on December 10, 2002 to several accredited investors. Each Unit is comprised of one share of Common Stock and one three-year option to buy one additional common share at $.20. As of March 31, 2005, all 1,750,000 options were outstanding.

On November 14, 2003, the Company completed a non-brokered private placement of 2,210,000 Units at $.50 per Unit ($1,105,000) to accredited investors. Each Unit is comprised of one share of Common Stock and one five-year warrant to buy one additional common share at $1.00. As of March 31, 2005, all 2,210,000 warrants were outstanding.

The Company registered these outstanding shares and 4,481,500 underlying shares of outstanding warrants/options with the Securities and Exchange Commission effective July 22, 2004. The warrants/options are a future source of capital for the Company and could generate up to $2,560,000 if they are exercised.

The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis. The ability of the Company to continue as a going concern is dependent upon increasing sales, managing operating expenses and obtaining additional equity financing.

Management's plan includes implementing one or more of the following elements:

- Conducting merger negotiations with third parties that have distribution networks in place. The synergies, combined sales, and reduced overhead would create a solid operational foundation and improved financial position.

- Forming a new private entity and transferring the operating assets to it, then selling the public shell to one of the interested parties.

- Selling one or more selected assets.

- Obtaining an infusion of capital that will sustain the Company's operation until the newly established licensing arrangements can produce positive cash flow.

- Continuing to reduce overhead and operating costs.

Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations (continued)

There can be no assurances that Management's plan will be successful and the Company's actual results could differ materially. No estimate has been made to the financial statements to account for the possibility that the plan may be unsuccessful.

Cautionary Statement Regarding Forward-Looking Statements

The statements contained in this Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectations, hopes, intentions, beliefs or strategies regarding the future, including, without limitation, its plans regarding distribution and marketing of its products and the development, acquisition and marketing of new products. Forward-looking statements include the Company's liquidity, anticipated cash needs and availability, and the anticipated expense levels under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward-looking statements included in this document are based on information available to the Company on the date of this report, and the Company assumes no obligation to update any such forward-looking statement. It is important to note that the Company's actual results could differ materially from those expressed or implied in such forward-looking statements.

Each forward-looking statement reflects the Company's current view of future events and is subject to risks, uncertainties, and other factors that could cause actual results to differ materially from any results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from the results expressed or implied by any forward-looking statements include:

- The volatility of the price of the Company's Common Stock;
- The Company's ability to fund future growth;
- The Company's ability to be profitable;
- The Company's ability to attract and retain qualified personnel;
- General economic conditions in the medical and cosmetic markets;
- Market demand for and market acceptance of the Company's products;
- Legal claims against the Company, including, but not limited to claims of patent infringement;
- The Company's ability to protect its intellectual property;

- Defects in the Company's products;
- The Company's obligation to indemnify certain customers;
- The Company's dependence on contact manufacturers and suppliers;
- The Company's dependence on a small number of customers for revenue

with respect to its products;

- The Company's ability to develop and maintain relationships with key vendors;
- New regulations and legislation;
- General economic and business conditions;
- Other risks and uncertainties disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and in the Company's other filings with the SEC.

All subsequent forward-looking statements relating to the matters described in this document and attributable to us or to persons acting on the Company's behalf are expressly qualified in their entirety by such factors. The Company has no obligation to publicly update or revise these forward-looking statements to reflect new information, future events, or otherwise, except as required by applicable Federal securities laws, and the Company cautions you not to place undue reliance on these forward-looking statements.

Item 4. Controls and Procedures

As of the end of this period, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Operating Officer and Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Operating Officer and Chief Executive Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information required to be included in the Company's Securities Exchange Act of 1934 filings.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date that the Company carried out its evaluation.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith)

31.2 Certification of Chief Operating Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C., Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.2 Certification of Chief Operating Officer Pursuant to 18 U.S.C., Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

(b) Reports on Form 8-K:

- Current Report on Form 8-K, dated September 30, 2004 reporting item 8.01 Other Events; formed a Limited Liability Limited Partnership

SIGNATURES

Pursuant to the requirements 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.

HYDRON TECHNOLOGIES, INC.

/s/: Richard Banakus

Richard Banakus
Interim President

Dated: May 9, 2005