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HYDROMER INC  
Form 10QSB  
May 15, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

FORM 10-QSB

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

For the quarter ended March 31, 2007

Commission File Number 0-10683

HYDROMER, INC.  
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(Exact name of registrant as specified in its charter)

New Jersey ----- (State of incorporation)	22-2303576 ----- (I.R.S. Employer Identification No.)
35 Industrial Pkwy, Branchburg, New Jersey ----- (Address of principal executive offices)	08876-3424 ----- (Zip Code)
Registrant's telephone number, including area code:	(908) 722-5000 -----

Securities registered pursuant to Section 12 (b) of the Act: None

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

Common Stock Without Par Value  
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(Title of class)

Check whether the issuer (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 report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

Indicate the number of shares outstanding or each of the issuer's classes of Common Stock as of the close of the period covered by this report.

Class -----	Outstanding at March 31, 2007 -----
Common	4,670,664

HYDROMER, INC.

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## Part II - Other Information

# 1 Legal Proceedings	N/A
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# 2 Change in Securities	N/A
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# 3 Default of Senior Securities	N/A
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# 4 Submission of Motion to Vote of Security Holders	N/A
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# 5 Other Information	N/A
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# 6 Exhibits and Reports on form 8-K	7
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## EXHIBIT INDEX

Exhibit No.	Description of Exhibit	
33.1	SEC Section 302 Certification - CEO certification	9
33.2	SEC Section 302 Certification - CFO certification	10
99.1	Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350	11
99.2	Certification of Robert Y. Lee, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350	11

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## Part I - Financial Information

Item # 1

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

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	March 31, 2007 UNAUDITED	June 2006 AUDITED
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 247,364	\$ 43,364
Trade receivables less allowance for doubtful accounts of \$57,624 and \$44,479 as of March 31, 2007 and June 30, 2006, respectively	773,095	1,190,000
Inventory	939,393	98,000
Prepaid expenses	163,616	11,000
Deferred tax asset	8,976	-
Income tax refund receivable	54,548	9,000
Other	112,698	12,000
<b>Total Current Assets</b>	<b>2,299,690</b>	<b>2,962,000</b>
<b>Property and equipment, net</b>		
Property and equipment, net	3,283,781	3,370,000
Deferred tax asset, non-current	655,969	50,000
Intangible assets, net	915,305	84,000
Other, non-current	-	11,000
<b>Total Assets</b>	<b>\$ 7,154,745</b>	<b>\$ 7,817,000</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 558,110	\$ 63,000
Short-term borrowings	700,164	65,000
Accrued expenses	319,009	37,000
Current portion of deferred revenue	28,941	12,000
Current portion of mortgage payable	205,909	20,000
Income tax payable	9,869	-
<b>Total Current Liabilities</b>	<b>1,822,002</b>	<b>1,997,000</b>
Deferred tax liability	271,058	27,000
Long-term portion of deferred revenue	70,182	9,000
Long-term portion of mortgage payable	1,939,037	2,090,000
<b>Total Liabilities</b>	<b>4,102,279</b>	<b>4,453,000</b>
<b>Stockholders' Equity</b>		
Preferred stock - no par value, authorized 1,000,000 shares, no shares issued and outstanding	-	-
Common stock - no par value, authorized 15,000,000 shares; 4,681,581 shares issued and 4,670,664 shares outstanding as of March 31, 2007 and 4,655,081 shares issued and 4,644,164 shares outstanding as of June 30, 2006	3,639,315	3,630,000
Contributed capital	577,750	57,000
Accumulated deficit	(1,158,459)	(84,000)
Treasury stock, 10,917 common shares at cost	(6,140)	-
<b>Total Stockholders' Equity</b>	<b>3,052,466</b>	<b>3,363,000</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 7,154,745</b>	<b>\$ 7,817,000</b>

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HYDROMER, INC. and CONSOLIDATED SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007 UNAUDITED	2006 UNAUDITED	2007 UNAUDITED	2006 UNAUDITED
<b>Revenues</b>				
Sale of products	\$ 1,006,875	\$ 1,134,148	\$ 3,531,205	\$ 3,350,277
Service revenues	394,857	347,825	1,124,759	838,589
Royalties and Contract Revenues	395,981	439,112	1,253,409	1,476,555
<b>Total Revenues</b>	<b>1,797,713</b>	<b>1,921,085</b>	<b>5,909,373</b>	<b>5,665,421</b>
<b>Expenses</b>				
Cost of Sales	773,469	851,911	2,369,712	2,472,643
Operating Expenses	1,310,201	1,448,766	3,855,143	4,072,855
Other Expenses / (Income)	43,711	(247,174)	131,229	(181,390)
Benefit from Income Taxes	(109,302)	(45,023)	(138,199)	(237,554)
<b>Total Expenses</b>	<b>2,018,079</b>	<b>2,008,480</b>	<b>6,217,885</b>	<b>6,126,554</b>
<b>Net Loss</b>	<b>\$ (220,366)</b>	<b>\$ (87,395)</b>	<b>\$ (308,512)</b>	<b>\$ (461,133)</b>
<b>Loss Per Common Share</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>	<b>\$ (0.07)</b>	<b>\$ (0.10)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>4,657,120</b>	<b>4,644,164</b>	<b>4,648,435</b>	<b>4,637,582</b>

The effects of the common stock equivalents on diluted earnings per share are not included as their effect would be anti-dilutive.

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HYDROMER, INC. and CONSOLIDATED SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31,	
	2007 UNAUDITED	2006 UNAUDITED
<b>Cash Flows From Operating Activities:</b>		
Net Loss	\$ (308,512)	\$ (461,133)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities		
Depreciation and amortization	302,171	266,400

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Deferred income taxes	(148,543)	(192,6
Changes in Assets and Liabilities:		
Trade receivables	424,994	144,7
Inventory	48,693	(68,9
Prepaid expenses	(45,180)	(106,4
Other assets	129,455	(314,7
Accounts payable and accrued liabilities	(131,934)	124,4
Deferred income	(122,994)	(77,3
Income taxes payable	45,657	
-----		
Net Cash Provided by (Used for) Operating Activities	193,807	(685,6
-----		
Cash Flows From Investing Activities:		
Cash purchases of property and equipment	(83,614)	(267,0
Cash payments on patents and trademarks	(190,908)	(137,6
Cash purchases of short-term investments	-	(392,6
Maturity of short-term investments	-	400,0
-----		
Net Cash Used for Investing Activities	(274,522)	(397,3
-----		
Cash Flows From Financing Activities:		
Net borrowings against Line of Credit	43,909	208,1
Repayment of long-term borrowings	(150,695)	(129,4
Proceeds from the issuance of common stock	-	7,7
-----		
Net Cash (Used for) Provided by Financing Activities	(106,786)	86,4
-----		
Net Decrease in Cash and Cash Equivalents:	(187,501)	(996,5
Cash and Cash Equivalents at Beginning of Period	434,865	1,376,6
-----		
Cash and Cash Equivalents at End of Period	\$ 247,364	\$ 380,0
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HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Notes to Consolidated Financial Statements

In the opinion of management, the accompanying unaudited financial statements include all adjustments (consisting of only normal adjustments) necessary for a fair presentation of the results for the interim periods. Certain reclassifications have been made to the previous year's results to present comparable financial statements.

Segment Reporting:

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The Company operates two primary business segments. The Company evaluates the segments by revenues, total expenses and earnings before taxes. Corporate Overhead is excluded from the business segments as to not distort the contribution of each segment.

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The results for the nine months ended March 31, by segment are:

	Polymer Research	Medical Products	Corporate Overhead	Total
2007				
Revenues	\$ 3,264,708	\$ 2,644,665		\$ 5,909,373
Expenses	(2,813,142)	(2,425,388)	\$ (1,117,554)	(6,356,084)
Pre-tax Income (Loss)	\$ 451,566	\$ 219,277	\$ (1,117,554)	\$ (446,711)
-----				
2006				
Revenues	\$ 3,222,757	\$ 2,442,664		\$ 5,665,421
Expenses	(2,558,212)	(2,687,553)	\$ (1,118,343)	(6,364,108)
Pre-tax Income (Loss)	\$ 664,545	\$ (244,889)	\$ (1,118,343)	\$ (698,687)
=====				

Geographic revenues were as follows for the nine months ended March 31,

	2007	2006
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Domestic	86%	83%
Foreign	14%	17%

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Item #2

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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#### Results of Operations

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The Company's revenues for the quarter ended March 31, 2007 were \$1,797,713, down 6.4% from the \$1,921,085 for the same period last year. Revenues for the nine months ended March 31, 2007 were \$5,909,373, or 4.3% higher than the \$5,665,421 in the corresponding period a year ago. Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales and services were \$1,401,732 for the quarter ended March 31, 2007 as compared to \$1,481,973 for the same period the year before, a decrease of \$80,241 or 5.4%. For the nine months ended March 31, 2007, product sales and services were \$4,655,964, up 11.2% (or \$467,098) from the \$4,188,866 the year before. Increase demand in contract coating services, private labeled T-Hexx Dry sales and an inventory call on Biosearch OEM medical devices were behind the revenue increase.

Royalty and Contract revenues include royalties received and the periodic recurring payments from license, option and other agreements for other than product and services. Included in Royalty and Contract revenues are revenues from support and supply agreements. For the quarter ended March 31, 2007, Royalty and Contract revenues were \$395,981, down \$43,131 or 9.8% from the \$439,112 the same period a year ago. Royalty and Contract revenues were \$1,253,409 and \$1,476,555 for the nine month periods ended March 31, 2007 and 2006, respectively. Included in the September 2006 quarter was an

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additional \$175,000 in support fees for the May and June 2006 periods, a delayed recognition due to the timing of agreement finalization.

As of March 31, 2007, our open sales order book was approximately \$961,000. During the month of April 2007, additional orders of approximately \$1,200,000 were received, some calling for delivery over the following twelve months. Although some of the sales orders can be cancelled prior to production, the Company is of the opinion that no substantial cancellations will occur. In addition, in the Company's line of business, a part of its sales are from orders that call for immediate or very short-term delivery. The open sales order book value does not reflect such future orders as they have not yet been received.

Total Expenses for the quarter ended March 31, 2007 were \$2,018,079 as compared with \$2,008,480 the year before, a 0.5% increase. For the nine months ended March 31, 2007, total Expenses were \$6,217,885 as compared with \$6,126,554 the same period the year before, or higher by 1.5%.

The Company's Cost of Goods Sold was \$773,469 for the quarter ended March 31, 2007 as compared with \$851,911 the year prior, lower by 9.2%. On a year-to-date basis, Cost of Goods Sold was \$2,369,712 for fiscal 2007 as compared with \$2,472,643 in fiscal 2006, \$102,931 or 4.2% lower. The elimination of a medical device product line during the second quarter (transferred to the customer's internal facilities), reduced manufacturing labor while we continued to supply coating formulations.

Operating expenses were \$1,310,201 for the quarter ended March 31, 2007 as compared with \$1,448,766 the year before, down \$138,565 or 9.6%. For the nine months ended March 31, 2007, Operating expenses were \$3,855,143 as compared with \$4,072,855 the year before, down \$217,712 or 5.3%. Included in the prior year's amount was \$247,000 in legal costs arising from the patent infringement litigation initiated against a former licensee and other parties, the settlement of which is included in Other Income.

Interest expense, interest income and other income are included in Other Expenses. Interest expense for the nine months ended March 31, 2007 and March 31, 2006 were \$143,259 and \$120,814, respectively, up from a higher utilization of the line-of-credit facility and higher interest rates. Interest income for the nine months ended March 31, 2007 and March 31, 2006 were \$12,001 and \$18,967, respectively, lower from a decrease in investable funds during the period. The settlement of the patent infringement litigation in the fiscal 2006 third quarter is reported as Other Income.

A net loss of \$220,366 (\$0.05 per share) is reported for the quarter ended March 31, 2007 as compared to a loss of \$87,395 (\$0.03 per share) the year before. For the nine months ended March 31, 2007, a net loss of \$308,512 (\$0.07 per share) is reported as compared to a net loss of \$461,133 (\$0.10 per share) the year before.

Higher product and services revenues, from the continued growth in our contract coating services along with the periodic private label T-Hexx Dry sales and an inventory call of medical devices in conjunction with the production transfer to our customer, combined with a relatively flat expense level yielded the improvement to the bottom line results this fiscal year-to-date. Re-investment expenditures (research and development, patents) accounted for approximately \$991,000 or 25.7% of the operating expenses. Our current projects include exciting new developments in the areas of thrombogenicity and cell mitosis, for use in the cardiovascular and neurovascular fields. These developments are patent pending and still under evaluation.

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### Financial Condition

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Working capital decreased \$492,423 during the nine months ended March 31, 2007.

Net operating activities provided \$193,807 for the nine month period ended March 31, 2007.

The net loss as adjusted for non-cash expenses, used \$154,884 in cash. The collections of accounts receivables as offset by the earning of income on amounts previously collected, provided for a \$302,000 source of cash.

Investing activities used \$274,522 and financing activities used \$106,786 during the nine months ended March 31, 2007.

During the nine months, the Company expended \$83,614 on capital expenditures and \$190,908 into its patent estate. The Company also borrowed an additional \$43,909 from its revolving line of credit and paid down long-term borrowings by \$150,695.

Recent delays by our customers in approving or commencing their R&D projects have delayed our expected income streams, hindering our ability to start or continue other revenue generating initiatives, some in which expenditures have already been made in anticipation of the forthcoming projects. R&D projects of this nature are imperative to the Company's ability to maintain its current level of operations, including further R&D and continuing evaluation of the Company's recent developments for use in the cardiac and neurovascular areas, as normal sales, services and contract revenues alone are not sufficient at its current levels. One such need is for in-vivo pig studies of our F202 non-leaching anti-thrombogenic coating onto cardiovascular stents. The Company is investigating various financial initiatives to cover its re-investment expenditures until they become revenue generating.

### Item # 3

#### Disclosure Controls and Procedures

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As of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and President and the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures.

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures were effective and that there were no changes to our Company's internal control over financial reporting that have materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting during the period covered by the Company's quarterly report.

### PART II - Other Information

The Company operates entirely from its sole location at 35 Industrial Parkway in Branchburg, New Jersey, an owned facility secured by mortgages through banks.



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The existing facility will be adequate for the Company's operations for the foreseeable future.

Item # 6. Exhibits and Reports on form 8-K:

a) Exhibits - none

b) Reports on form 8-K - There were no Form 8-K's filed during the quarter ending March 31, 2007.

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SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on his behalf by the undersigned thereunto duly authorized.

HYDROMER, INC.

/s/ Robert Y. Lee ,VP  
Robert Y. Lee  
Chief Financial Officer

DATE: May 9, 2007

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