HYDROMER INC
Form 10KSB
October 02, 2007
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D. C. 20549

FORM 10-KSB

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

For the fiscal year ended June 30, 2007

Commission File Number 0-10683

HYDROMER, INC.

(Exact name of registrant as specified in its charter)

New Jersey	22-2303576
(State of incorporation)	(I.R.S. Employer Identification No.)
35 Industrial Parkway, Branchburg, New Jersey	08876-3424
(Address of principal executive offices)	(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

(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( )

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB (X)

The aggregate market value of the voting stock held by non-affiliates of the Registrant at September 1, 2007 was approximately $2,339,582.

The number of shares of Registrant's Common Stock outstanding on September 1, 2007 was 4,717,908.
Portions of the Audited Financials Statements for the year ended June 30, 2007 are incorporated by reference in Part II of this report. Portions of the Proxy Statement of Registrant dated September 14, 2007 are incorporated by reference in Part III of this report.

PART I

Item 1. BUSINESS

General

Hydromer, Inc (the Company) is a bio-polymer research and development company organized as a New Jersey Corporation in 1980 for the purposes of developing polymeric complexes for commercial use in the medical, commercial, cosmetics and veterinary sciences markets.

Until September 1982, approximately 99% of the outstanding common stock, without par value (the Common Stock), of the Company, was owned by Biosearch Medical Products Inc. (BMPI), which in turn was controlled by Manfred Dyck, who is the Company s current Chief Executive Officer, Director and the Chairman of the Board. On September 16, 1982, BMPI distributed its shareholdings in the Company pro rata to the holders of its common stock. In connection with this distribution, the Company granted to BMPI an exclusive, worldwide perpetual, royalty-free license for the use of Hydromer technology in connection with the development, manufacture and marketing of biomedical devices for enteral feeding applications. On February 4, 2000, the Company acquired all outstanding stock of BMPI for $0.20 per share, and now manages BMPI as a subsidiary.

The Company owns several process and applications patents for Hydromer® coatings (Hydromer). These polymers become extremely lubricious (slippery) when wet. Techniques have been developed for grafting or applying this substance onto a broad variety of materials, including other polymers like polyurethane, polyvinyl chloride, and silicone elastomers, ceramics and metals. The Company has also been issued patents for permanent anti-fog materials, hydrophilic polyurethane foams, hydrophilic polyurethane blends, hydrophilic polyvinylbutyral alloys, several biocompatible hydrogels and an anti-bacterial medical material. The Company continues to actively evaluate other new market opportunities for its polymer technology specifically in neurology and cardiology.

The Company also owns various trademarks, including AQUADAPT®, a medical hydrogel, AQUAMERE®, a water resistant film former product with cosmetic applications, AQUATRIX®, a cosmetic hydrogel, Dermaseal®, a dermal barrier film product for the prevention of contact dermatitis, Sea-Slide®, a coating for watercraft hulls, and T-HEXX®, a barrier teat dip product for the prevention of mastitis in dairy animals.

The Company s patents are typically broad based, having a multitude of different applications across various industries. Accordingly, the Company currently operates in the medical, commercial, cosmetics and veterinary sciences markets.

MEDICAL

From its inception in 1980 to mid-1984, the Company was primarily engaged in R&D activities related to Hydromer coatings used on medical devices. Since then and until the acquisition of BMPI, the Company s business in the medical field consisted of the sale of lubricious coatings and the licensing of its lubricious coating technologies. With the acquisition of BMPI in February 2000, the Company now offers a horizontally integrated breadth of services including medical device manufacturing, contract coating, equipment building and design, and as of more recently, R&D servicing.

The Company continues to focus on its coatings technologies as the nucleus of its participation in the medical field, including added developments of radio-opaque, biostatic/anti-microbial and most recently, cell anti-mitosis and anti-thrombogenic coatings. As of June 30, 2007, the Company has three patents pending, one on a non-leaching anti-microbial coating, one on anti-microbial medical hydrogels for body cavities and one on anti-thrombogenic and cell anti-mitosis technology. The Company was granted a patent on water-based lubricious coatings for medical applications and in industrial condensation control in fiscal 2006.

HYDROMER® Coatings: Lubricious / Anti-microbial / Anti-thrombogenic / Cell anti-mitosis / Radio-opaque

When treated with a Hydromer lubricious polymer, a medical device becomes very slippery when wet, allowing for easy insertion into any orifice of the body, in penetration of the skin or for device-on-device (i.e. guidewire-catheter) use. Hydromer coatings are permanently bonded to the device unlike silicone lubricants, which must be applied after each use and are often left behind in the bloodstream and body cavities. Hydromer coatings can also be coated on complex surfaces and on the inside walls of devices, unlike the treatments by major competition. The Company believes that the polymer-water interface of its Hydromer coatings provides surface lubricity superior to the quality of other currently marketed silicone-based lubricants to treat medical devices.

Drugs and other substances can be readily incorporated into Hydromer, both in a bound and unbounded fashion, allowing for controlled release from the device for therapeutic purposes or the creation of permanent biocidal or biostatic surfaces (anti-microbial coatings).

Certain Hydromer coatings have been shown in numerous studies to reduce the risk of thrombogenesis or clot formation on devices. Such anti-thrombogenic coatings can be applied to cardiovascular stents, oxygenators, blood warmers, hemodialysis equipment, intravenous catheters and much more.

In 2006, the Company filed for a patent on its cell anti-mitosis coatings which decreases cell proliferation and cell adhesion and prevents platelet adhesion. This coating appears to have the attributes needed for a cardiovascular stent to combat restenosis and late stage thrombosis. In vitro (lab) studies have yielded positive results and in vivo (pre-clinical) studies are planned.

The Company was awarded a patent on its radio-opaque coatings in 2003. Hydromer s radio-opaque coatings enhances the visibility of a variety of substrates, including, but not limited to, stents and PTCA balloons.

Option and License Agreements

A portion of the Company's revenues is derived from option and license agreements (see Patents and Trademarks section). Option agreements provide customers the right for a finite period of time (i) to use the Hydromer process to determine whether the customer's products lend themselves to treatment with the process and (ii) to test market such products. The option agreements have also given the customers the right to subsequently enter into a license agreement with the Company and to the market product(s) treated with Hydromer, which typically provides the Company an initial flat fee, followed by periodic royalty payments based on sales.

The Company has previously reported license agreements in effect and expiring relating to applications of the Hydromer as follows: Annual Report on Form 10-K for the fiscal years ended June 30, 1983 through 1996 and Form 10-KSB for fiscal years ended 1997 through 2006.

As of June 30, 2007, the Company has license agreements with six companies covering the application of Hydromer coatings to the following devices: enteral feeding products, guidewires, certain urological devices, infusion microcatheters, central venous catheters, guiding and umbilical catheters, angioplasty balloon catheters, embolization delivery devices, inter/intra-ocular lenses and biliary and pancreatic stents. The Company is actively seeking new licensing opportunities.

Licensee/Application

Applied Medical - certain urological and vascular devices

Corneal, Ltd. inter-ocular lenses

Gallini - certain urological devices

MXM intra-ocular lens inserter systems

Nemed - inter-ocular lenses

Tyco International / Kendall HealthCare Products - certain urological devices and enteral feeding systems

Supply and Support Agreements

In order to avail our customers to a continued material source or of technical support on our products, certain supply or support agreements may be entered into. Depending on the specific requirements of each agreement, the Company would provide continued support in terms of product availability or technical know-how, some including the escrow of formulas or data with independent agents. The Company currently has supply and/or support agreements with Ay Tibbi Cihazlar, Cordis Corporation, CR Bard, NeoMetrics, Inc and others.

Hydrogels, Drug Delivery, Wound Dressing

Applications of the Company s Hydrogels are being developed for wound care, implants, drug delivery, burn care, conductive hydrogel electrodes, ultrasonic couplants and cosmetic uses for several customers. The Company is also identifying strategic partners to offer hydrogel coating services to clients who do not have rolled goods coating capability and to license Hydrogel technology for cosmetic and medical use, including drug release.

The Company s hydrogel technology offers biocompatibility, flexibility, and ease of use and processing. It also allows for the stabilization of biomolecules, cell cultures, drugs and other active substances without potentially damaging external energy sources. It is absorbent, inherently self-adhesive but peels away cleanly and is naturally soothing. Other than our bio-adhesives and medical coatings, which are one part systems, to form the gel entails simply to mix the two parts together - no heat, no chemical cross linkers nor expensive high energy processing is required. Many competitive technologies are much more process intensive and require external energy to crosslink. The Company believes these products are synergistic to our existing hydrogel technologies, and offer further opportunities in electrodes and internal and topical actives delivery. The Company has a pilot coating machine to facilitate the commercialization of its hydrogel technologies. The Company is exploring other medical and dental as well as cosmetic applications for this technology.

Aquadapt® is the Company s hydrophilic polyurethane foam technology. The Company has 510K approvals from the FDA for medical use applications in the U.S. The Company also has a patent on its chitosan-PVP hydrogel technology as well as patents granted in 2000 and 2002 on polyaldehyde hydrogels.

OEM Medical Devices

Through its ISO 13485:2003 certified and FDA registered Biosearch Medical Products subsidiary, the Company offers 510K/CE marked medical devices. The current product portfolio includes: bipolar coagulation probes; placement catheters, biliary stents; jejunal and enteral feeding accessories; guidewires; biofeedback devices for fecal and urinary incontinence; and other endoscopic accessories. The Company also contract manufactures products for several large multi-national marketers of medical devices on an OEM basis. Under current development are umbilical vessel and CVC/dialysis catheters.

HYDROMER® Coating Services

The acquisition of BMPI allowed for the Company to realize another venue of revenues: Coating Services. Utilizing the acquired medical device manufacturing know how and by applying its coatings technologies, the Company began offering coating services, in which the Company coats third party devices with its Hydromer coatings. The Company s knowledge in coatings technologies allows it to coat various types of material, such as silicone, stainless steel, Pebax and polypropylene cost effectively, whereas some of the competition is unable to. Global clients are using this service in the urology, cardiology and neurovascular markets.

The Company continues to expand its activity in coating services and is actively seeking new opportunities to provide contract development, coating and manufacturing services to the medical, commercial and personal care industry, utilizing its Hydromer and Anti-Fog coating technology and expertise. The Company further continues to believe that these services will enable a broader range of customers to use our materials in market on accelerated timelines in a more cost effective manner.

R&D and Engineering Services

The medical device market continues to undergo a shift toward consolidation by very large multi-national players with small, entrepreneurial start-up companies looking to exploit niche opportunities or unique device designs. The Company s experience and knowledge can significantly speed development, assessment and market readiness for our clients, large and small, through its research and development and engineering services.

For example, for medical devices such as coronary stents and brain catheters, the Company can develop the coatings, including drug eluting coatings, establish the manufacturing and QA protocols, design and build the coating equipment, start up scale prototype production and eventually transfer the process assisting the customer in the transition.

The Company believes that offering prototyping, process development and small-medium scale coating/ manufacturing services is fundamental to the expansion of the Hydromer coatings business, and a strategic imperative. The Company will endeavor to become a one stop supplier of high performance coatings and services.

INDUSTRIAL/COMMERCIAL

Hydromer Anti-Fog/Condensation Control is an optical coating which prevents the accumulation of vision-obscuring condensation under high humidity conditions. The Company is selling this material to manufacturers of greenhouse panels, refrigerator freezer doors, industrial and medical safety and swim goggles, aircraft windows, automotive headlight assemblies and gauge and meter manufacturers in the U.S. and internationally, including China.

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The Company also offers Sea-Slide®, a Hydromer-based drag reducing coating that reduces friction between hull and water, and can be used over most anti-fouling paints. Independent testing has confirmed that this technology significantly improves fuel economy and the hull speed of watercraft. Sea-Slide is marketed through HammerHead Products, Inc., via an exclusive distribution agreement.

COSMETICS

The Aquamere® series of the Company s cosmetic intermediaries are sold to major cosmetic companies worldwide for use in hair dyes, hair conditioners, mascaras, eye shadows, sunscreens and body lotions. They are currently in test for use in shampoos, hair styling aids, OTC dermal drug delivery and topical disinfectants. The Aquamere series of cosmetic polymer solutions, introduced in 1988, are both aqueous and hydro-alcoholic based systems. They are also offered with cationic and silicone grafted modifications. Formulations have also been developed internally utilizing this technology and are being offered for sale as turnkey products to smaller marketers of personal care products.

The Company s Dermaseal® line, a patented film-forming hydrogel technology, is currently being sold to major cosmetic companies as a base for foundations and other skin care products. It is also being tested for use in broader skin care, cosmetic and OTC drug delivery. Dermaseal is the registered trademark for barrier film compositions, patented in fiscal 2000 along with the method for preventing contact dermatitis. Clinical testing has demonstrated that these compositions protect the user from the effects of contact with poison ivy, oak or sumac plant allergens. Technical testing has also demonstrated protection from latex proteins, nickel and other contact allergens.

In 2006, the Company added a unique anti-microbial polymer to its product line. When used for beauty cosmetics, contamination and infections can be reduced.

VETERINARY SCIENCES

In Fiscal Year 1999, the Company s polymer technology was used to launch the Company s entry into the Animal Health field to combat clinical and sub-clinical mastitis, a problem that costs U.S. Dairy farmers an estimated $3-5 billion per year. Marketed under the *T-HEXX*® brand, initially through U.S. licensees, the *T-HEXX* Barrier Dips and Sprays offer dairy farmers exceptional value and unsurpassed protection as the first no-drip and water resistant barrier products on the market preventing environmental water containing mastitis-causing organisms, including mycoplasma, from reaching the teat surface. The Company has received three patents for its unique barrier teat dip compositions with an application on a fourth patent pending.

The annual U.S. market for barrier teat dips is estimated to be $100-130 million at the farm level. The *T-HEXX* Barrier products contain protocol-proven active ingredients that kill mastitis-causing bacteria within 30 seconds of contact while continuing to remain active up to 12 hours later. *T-HEXX* Barriers are superior performers in its niche market, while priced comparably or less than barrier dip products manufactured by the leading sanitary chemical companies in the world. Our products are compatible with existing mechanical equipment and milking procedures and most importantly, are easily removed using traditional pre-milking methods. Based on field tests, our product has been demonstrated to stay on the cow teat better than the competition, protecting the cow during the complete 8-12 hour milking cycle.

In fiscal 2002, the Company launched a complementary product, *T-HEXX*® Dry Teat Protection Sealant, to protect cows during the non-lactation (dry cow) period. *T-HEXX* Dry is used as a non-irritating low-cost sealant during the dry-off and the critical pre-calving period where it is estimated that over 50% of new mastitis cases are believed to start. *T-HEXX* Dry is the first dry cow dip product with an anti-microbial that remains on the teat for 3-7 days. Clinical studies show that *T-HEXX* Dry is impervious to National Mastitis Council (NMC) recognized mastitis-causing organisms for seven days, yet is comparably priced to existing dry cow teat sealants that does not offer such protection. Our product is suggested to be used on cows just prior to their release to the dry cow pen, in conjunction with existing antibiotic therapy or internal teat sealants. In fiscal 2004, two customers launched our Dry product under their private-label name, reflecting the strength of our product.

Patent pending and under development is a *T-HEXX* teat plug, which when launched, would allow the Company to provide complete protection against mastitis for the entire bovine working cycle.

The Company has invested significantly in clinical research, patents, promotion, vendor partnerships and advertising via print media, trade shows and the Internet to support this business and continues to do so. Legal action was initiated against a former licensee and other parties in fiscal 2004 on the basis of infringement of the Company s patented technology. Settlement was made in early calendar 2006 with all parties, authenticating both the validity of the technology as well as ownership of such.

Products

Coating solutions for use on medical devices, cosmetic intermediaries, hydrogels and teat barrier dips/sprays are manufactured and sold by the Company to its licensees and others. The Company is selling anti-fog solutions to manufacturers of greenhouse panels, refrigerator freezer doors, swim goggles, industrial safety equipment, aircraft windows and meter covers, both in the U.S. and foreign countries. The Company also sells OEM medical devices through its Biosearch Medical Products subsidiary.

The Company has no long-term contracts with any of its suppliers and believes that there are adequate alternative sources of supply available for all raw materials that it currently uses.

Dependence Upon Customers

The Company derives its revenues from two primary business segments: (1) polymer research and the products derived there from, and (2) the sales of medical products. During the fiscal years ended June 30, 2007 and June 30, 2006, the Company recognized revenues from two major customers: Johnson & Johnson s Cordis Division and Cook Endoscopy, formerly Wilson Cook Medical, Inc.

Product sales and/or royalty payments and support fees from these customers accounted for 28% and 32% of the Company s total revenues for the years ended June 30, 2007 and June 30, 2006, respectively.

Potential Applications

The Company continues to explore other applications of the complexing capabilities of polymeric substances, such as anti-microbial agents. The Company currently is working on further applications of its patented technologies to existing products of other companies, including cosmetics, wound dressings, personal care and a wide variety of medical devices, including vascular stents. Some of these products and applications are in the preliminary development stage and are subject to substantial further development before their feasibility can be verified.

On the basis of its market analyses, as well as laboratory and in-vitro testing of certain applications of Hydromer, the Company believes that Hydromer's potential product applications, classified with reference to salient Hydromer characteristics, are as follows:

1. *Low Coefficient of Friction*. Hydromer is a hydrophilic coating which when contacted by water becomes extremely lubricious. The Company believes that this unique feature would prove beneficial to any medical device that is inserted into the body. Medical products that would so benefit include:

urinary products - urethral catheters, stents and urinary drainage systems;

rectal products - enemas, rectal tubes, examination gloves and proctoscopy devices (disposable);

nasal/oral products - suction catheters, oxygen catheters and endotracheal tubes;

cardiovascular and related products - grafts, cardiac assist catheters heart-lung tubing, stents.

2. *Ability to be Complexed with Other Functional Chemicals.* The Hydromer hydrophilic polymer coating can be complexed with other chemicals. For example, Hydromer coating complexed with iodine forms an effective anti-microbial barrier. The Company believes that this unique feature would lend itself to application on a wide variety of currently marketed medical products, including vascular stents, Foley catheters, wound drains, wart and corn dressings, burn dressings, intravenous catheters, surgical dressings and adhesive bandages. One of the Company s recent patents in the coating area, issued in April 2000, involves the covalent bonding of infection resistant materials into the coating, providing a non-leaching, anti-infective surface. The Company was also granted a patent in July 2003 for covalently bonded radio-opaque polymeric compositions to improve the radio-opacity of materials without needing high solid loading, metal plating or ion implantation for applications like stents and vascular catheters.

3. *Cross-link Density Can be Controlled.* The Hydromer hydrophilic polymer coating, through controlled cross-linking, has been further developed into a special anti-fog coating. Such a coating is (a) resistant to fogging under a wide range of temperature/humidity conditions; (b) transparent and has heat/light stability; (c) long lasting, i.e., will not chip or peel and offers more scratch resistance than do most commercial plastics; (d) inert to most commercial glass cleaners; (e) less prone to static dirt pickup; and (f) applicable by dip, spray or roll coating. This anti-fog product has use on greenhouse panels, refrigerator freezer doors, sports goggles, windows, mirrors and other products, either by direct application or by coating of an adhesive backed film.

Research and Development

The Company's research and development activities presently are, and during the next year are expected to be devoted primarily to the development and enhancement of the products described above and to the design and development of new products, either for its own account, jointly with another company or strictly as a sub-contractor. The Company sponsors all of such activities from its own internal funding or through charges to the contracting company. The major portion of R&D expenses was applied toward salaries and other expenses of personnel employed on a regular basis in such work.

Competition

The Company considers the most significant competitive factors in its market for its patented coatings to be product capability and performance (including reliability and ease of use), in addition to price and terms of purchase.

The Company currently owns eighteen process and applications patents for Hydromer coatings (see "Patents and Trademarks"). Although the medical products market is highly competitive, the Company does not believe that there is any other product available which performs functions significantly better in terms of lubricity, complexing capabilities, durability and cost.

While management believes the Company has a strong position in the market for medical device coatings in which it competes, and that its hydrophilic foam, anti-fog coatings and hydrogel products are technologically superior to other products in the market, there can be no assurance that alternatives, with similar properties and applications, could not be developed by other companies. The Company is aware that there are other similar technologies available and/or being developed by others. The industry in which the Company competes is characterized by rapid technological advances and includes competitors that possess significantly greater financial resources and research and manufacturing capabilities, larger marketing and sales staffs and longer established relationships with customers than the Company does, at present or will for the foreseeable future.

Marketing

The Company markets its products and services through five principal means:

1. *Commercialization of its existing technologies:* The Company intends to expand its efforts to market its current technology to the medical, industrial, personal care and veterinary sciences markets. The Company has expanded its capabilities to prototype and manufacture for customers to demonstrate the value of Hydromer technology. The Company will also seek opportunities to apply its technology in new applications where the technology will offer a benefit. Further, the Company will seek customers for technologies that have been developed but are not currently generating revenue, capitalize on the technology that has been created through its R&D efforts and to expand the application of current technologies.

2. *Sale of Development Services:* The Company intends to continue moving its effort away from straight technology licensing and toward contract product development, contract manufacturing and coating services (see 5. Coating Services). The Company has significant expertise in polymer development and applications. By exhibiting at an increased number of trade shows in the medical device fields, the Company expects to generate interest in its technology and products, with a view toward acting as an outside product development arm and development supplier for companies in these fields.

3. *Joint Development:* The Company will continue to seek joint development programs, co-marketing programs and other business arrangements with potential partners.

4. *Licensing:* The Company will continue its endeavors to license its technology to current market leaders in the medical device, pharmaceutical and other fields, whereby the Company will grant exclusive or non-exclusive rights for the Hydromer coating treatment of existing or new products, and the development of specific products utilizing its foam and hydrogel technology under its patents. In return, the Company generally would earn royalties based on sales of such treated or new products. Such licenses will usually be very narrow. The activities leading to the consummation of a license agreement normally are lengthy and require establishing a scientific dialogue with potential customers, treating samples supplied by that customer with Hydromer coatings, determining if the treatment is feasible and cost effective, testing the coated products in a laboratory and then negotiating a mutually acceptable option agreement. An option fee may be paid by the customer which would give the customer exclusive rights to use the Hydromer treatment on the specified product for a defined time period. During such period, the optionee can test market the coated product and/or determine its ability to treat the product in its own manufacturing process. If the customer determines that the subject product should be treated with Hydromer coating on a commercial basis, it may either perform the Hydromer coating treatment itself under a license agreement with the Company, through the Company s Contract Coating unit or it may have a third party perform the Hydromer coating treatment.

5. *Coating Services:* The Company will serve the customer who needs products coated with lubricious or anti-fog coatings in production runs that are economically feasible without substantial investments in fixturing and automation. Typically this would be prototypes or runs of low volume, high value products. Higher volume products could be accommodated if they were physically small and did not require extensive fixturing or because for technical reasons they could not be automated and were of high enough value to warrant the added cost. The Company will pursue large volume projects if they fall within a technical area where the Company has particular expertise.

Business segments in Coating Services which are of particular interest include medical devices (catheters and guidewires) and transparencies (lenses, face shields). Contacts will be pursued in conjunction with marketing of Hydromer coatings, at trade shows, in mass mailings and advertisement in appropriate trade publications. The Company is continually upgrading its advertising copy and promotional literature as needed to graphically highlight the properties and advantages of its technologies.

The same marketing tools (traditional means of tradeshow contacts, mass mailings, advertising, promotional activities, etc.) as well as alternative methods (such as the Internet) are used by the Company in its focus of expanding sales globally to the medical, commercial, personal care and veterinary sciences community.

Patents and Trademarks

Management believes that the protection afforded by the Hydromer patents will be a significant factor in the Company's ability to market its products. Anticipating patent expiration, the Company has focused on licensing and developing products based upon its newer technologies.

As an example, one U.S. patent that contributed approximately $2,100,000 in annual royalties from four licensees expired on May 6, 2005. Although the Company had a new patent on superior technology available, the Company was successful in reaching supply and/or support agreements with the four former licensees recovering an approximate $1,500,000 annually. These new supply/support agreements have varying terms and cancellation provisions.

It is the Company s practice to replace any discontinuances of income stream with other sources, including new product revenues, new service revenues and other license or contract revenues.

As of June 30, 2007, the Company has 18 U.S. patents, three U.S. applications and various foreign counterparts. The Company s existing patents covers hydrophilic coatings and foams, hydrophilic polymer blends, anti-bacterial medical and cosmetic materials, non-leaching biostatic coatings, barrier film and barrier teat dip compositions and its method for preventing contact dermatitis, permanent anti-fogs, Chitosan gels and others.

One new patent was awarded to the Company during the fiscal year ended June 30, 2006. This patent covers the application of water based surface modifications for use in lubricity, anti-microbial, drug release, hydrogel, radio-opaque, animal care and unique anti-fog/anti-frost

applications.

The Company owns the registered trademarks Aquadapt , Aquamere , Aquatrix , Dermaseal , "Hydromer", Sea-Slide and T-HEXX in the U States and other countries.

Employees

As of June 30, 2007, the Company and its subsidiary had seventy active full-time employees. The Chief Executive Officer is Manfred F. Dyck, who is also Chairman of the Board. The Company does not have a collective bargaining agreement with any of its employees and considers its relationship with its employees to be very good.

Government Regulations

The uses of the Company's medical, agricultural and cosmetic products come under the jurisdiction of the FDA, as well as other federal, state and local agencies, and similar agencies in other countries.

In connection with the Company's license agreements, it is generally the obligation of the licensee to conform to any required FDA pre-market notification or other regulations. To the Company's knowledge, all such licensees who are marketing FDA regulated licensed products are in such compliance. The Company may in the future desire to market additional applications of Hydromer to existing products, or products introduced by it, which may be subject to such FDA approval procedures as proof of safety and effectiveness of the applications or products, or adherence to prescribed design standards. There can be no assurance that such approvals would be forthcoming or of compliance with such standards. Any such failure to obtain approvals or non-compliance might have a significant adverse effect on the Company. However, the Company intends to make every effort to obtain all necessary approvals and to comply with such standards, and in the case of its licensed applications, to require the licensees to obtain such approvals.

The Company manufactures medical products through its Biosearch Medical Products subsidiary (Biosearch), whose activities come under the jurisdiction of the FDA. It is the policy of the Company to use the FDA regulations as guidelines during manufacturing of Hydromer coatings.

The Company is also subject to federal and state regulations dealing with occupational health and safety and environmental protection. It is the policy of the Company to comply with these regulations and be responsive to its obligations to its employees and the public.

The Company s electronically filed reports are available at www.sec.gov.

Executive Officers

The executive officers of the Company are as follows:

Name	Position as of Aug 31, 2007
Manfred F. Dyck - Chairman of the	

Name	Position with Company	Age as of Aug 31, 2007
Manfred F. Dyck	Chairman of the Board, Chief Executive Officer and President	72
Martin C. Dyck	- Executive Vice-President, Operations and President Biosearch Medical Products subsidiary	45
Rainer Gruening	- Vice-President, Intellectual Property	64
John Konar	- Vice-President, Quality Assurance and Director of Human Resources	58
Robert Y. Lee	- Vice-President, Finance, Chief Financial Officer and Treasurer	41
Robert J. Moravsik	- Senior Vice-President, General Counsel and Secretary	64

Manfred F. Dyck has been Chairman of the Board of the Company since June 1983 and a Director of the Company since its inception. Mr. Dyck served as Chief Executive Officer of the Company from its inception until October 1986, and as of August 1989, reassumed the duties of Chief Executive Officer. Mr. Dyck was President of Biosearch Medical Products Inc. from 1975 until 1998 and a Director of Biosearch Medical Products Inc. from 1975 until 2000.

Martin C. Dyck has been Executive Vice-President, Operations since June of 2001. He was previously Vice-President of Operations since February 2000 when the Company purchased Biosearch Medical Products. Mr. Dyck has been President of Biosearch since 1998, a position which he still maintains. Mr. Dyck has been employed by Biosearch since 1986 and has served in various capacities including Director of New Product Development, where he developed several new medical devices and authored six FDA 510(k) pre-market submissions. After becoming President of Biosearch in 1998, Mr. Dyck changed the focus of Biosearch to become a contract medical coatings service provider using

proprietary technology unique to Biosearch.

Rainer Gruening joined the Company as Vice-President of Research and Development in June 2001, and in May 2006 became VP of Intellectual Property. With a PhD in Chemistry from the University of Marburg in Germany, his background includes service with Bayer AG/Deutsche Solvay Werke, Troy, G+G International and AM Cosmetics in areas including international regulatory affairs, coatings technology and anti-microbials. Mr. Gruening authored and/or co-authored 17 patents and 35 publications on synthesis and formulation of anti-microbials for paint and coatings, cosmetics, personal care products, medical coatings, adhesives, marine anti-fouling and metal working fluids and developed dossiers, safety assessments and GMP documentation. Additionally, he implemented FDA/CTFA, European and Japanese compliance requirements for raw materials and formulation restrictions.

John Konar has been the Vice-President of Quality Assurance since February 2004 and Director of Human Resources since February 2000. Mr. Konar joined Biosearch in 1986 and served as the Director of Human Resources with Biosearch from 1996 until its acquisition by the Company in 2000, when he then assumed responsibilities for both companies. He also served, with Biosearch, as the Director of Sales from 1996 until 2000, Director of Manufacturing from 2000 to 2001 and Director of QA from 1998 until 2004.

Robert Y. Lee joined the Company in the capacities of Vice-President of Finance, Chief Financial Officer and Treasurer in June 2001. He earned a MBA in Finance and International Business, and a Bachelors of Science in Accounting and Information Systems, both from New York University's Stern School of Business. His professional experience includes tenure with the New York office of Coopers & Lybrand (currently Pricewaterhouse Coopers) in their Emerging Business Group, the Bristol Myers Squibb Internal Auditing group, ASARCO's Southern Peru Copper Corporation, now Southern Copper Corporation, part of Grupo Mexico, and Citigroup.

Robert J. Moravsik has been Senior Vice-President, General Counsel and Secretary since February 2000. He holds a B.S. in Aerospace Engineering, an M.S. in Computer Science and a Doctorate in Law. He was Vice-President and General Counsel since April 1998. He also serves in the same capacity for Biosearch Medical Products, Inc. an affiliated company since 1987. Prior to that, he was Vice-President and General Counsel to Fisher Stevens, Inc., a subsidiary of the Bureau of National Affairs. He is an attorney admitted in the state of New Jersey and New York.

Item 2. PROPERTIES

In June 1998, the Company purchased the building and land at 35 Industrial Parkway, Branchburg, NJ from Biosearch Medical Products, then an affiliated party. The facility, currently its sole facility, is secured by mortgages through banks. See the financial statements included herein for the terms of the agreements.

In 2002, the Company completed its 10,400 square feet expansion at its primary location of 35 Industrial Parkway. This allowed the Company to consolidate certain manufacturing and quality assurance functions operations formerly located on leased space.

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

Item 3. LEGAL PROCEEDINGS

The Company is a named defendant in a product liability action, which is covered under the Company s Product Liability Insurance policy.

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

Employee Stock Option Plan 2007-1 (Proposal II of the Proxy to the Annual Meeting of Shareholders on November 14, 2007), to provide for the grant of stock options to existing employees and provide an incentive and/or provide for the retention of talented individuals. The proposed Plan provides up to 200,000 options, with each option allowing the purchase of one share of restricted Common Stock at a price calculated as the prior 5-day weighted average of the closing price of Common Stock (Market Price). Option grants are granted upon the recommendation of the C.E.O. and approval of all the independent directors of the Company, valid for a term of 5 years, vesting 1/3 each anniversary from the date of grant. The Plan is in effect until the earlier of September 1, 2017 or until all of the options are awarded.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Prior to January 9, 1986, the Company s Common Stock was traded in the over-the-counter market on the National Association of Securities Dealer s Automated Quotation System (NASDAQ) under the symbol HYDI . Subsequent to January 9, 1986, reporting of trading was transferred to the National Daily Quotation Service (commonly known as the Pink Sheets). For the past twenty years, trading in the Company s stock has been limited.

On February 13, 2002 the Company became a listed security on the Boston Stock Exchange (BSE) under the trading symbol HDO . Hydromer remains listed as HYDI on the OTC reporting services.

The Company s common stock traded at prices ranging between $0.70 and $2.60 in the fiscal year 2007 and between $0.75 and $1.35 in the fiscal year 2006. These prices may not include retail mark-ups or mark-downs or any commission to the broker dealer.

The approximate number of holders of record of the Common Stock on September 1, 2007 was 216. There are approximately 600 individual shareholders of the common stock.

Item 6. MANAGEMENT DISCUSSION AND ANALYSIS

The below discussion analyzes major factors and trends regarding the results of operations and the financial condition of the Company as of June 30, 2007, and its results of operations for the prior fiscal period. It should be read in conjunction with the Financial Statements and Notes thereto.

Revenues for the year ended June 30, 2007 were $8,099,485 as compared to $7,869,729 for the same period last year, an increase of $229,756 (2.9%).

Product sales and services revenues were $6,462,823 for the 2007 fiscal year as compared to $5,993,167 the prior fiscal year, a 7.8% increase or $469,656.

License royalties and contract payments were $1,636,662 in fiscal 2007, down 12.8% from fiscal 2006 s results of $1,876,562.

Management Comment: Strong customer demand for the Company s medical business line of lubricious coatings, OEM medical devices, contract coatings and R&D along with higher orders for the T-HEXX® DRY teat protection sealant for drying off and pre-calving cows were behind the improved product and services revenues.

Included in fiscal 2006 s royalties and contract payments were $175,000 in support/availability fees for the May and June 2005 period which was recorded in the July-Sept 2005 quarter due to the timing of the final agreement execution.

Total Expenses for the year ended June 30, 2007 were $8,206,109, 5.1% or $442,997 lower than the 2006 fiscal year results of $8,649,106.

Cost of Goods Sold was $3,138,820 for fiscal 2007 as compared to $3,526,039 for fiscal 2006. Operating expenses were $4,958,433 and $5,494,366, for the years ended June 30, 2007 and 2006, respectively. Stock based compensation, a non-cash expense, added $55,400 to expenses in fiscal 2007. The Benefit from Income Taxes was $101,002 in fiscal 2007 compared with $465,497 in fiscal 2006.

Management Comment: A change in the Company s inventory standard costs impacted the beginning fiscal 2006 inventory value by $138,459, which increased the fiscal 2006 Cost of Sales. Lower wages and benefits for direct labor, including from the phase out of a product line in which our customer moved to their offshore production, rounded out the lower Cost of Sales this fiscal year.

The Fiscal 2006 Operating Expenses included $257,114 in legal fees relating to our patent infringement claim against a former licensee and other parties. Combined with lower employee costs and sales traveling in fiscal 2007, operating expenses were lower $535,933 year over year. Included in Operating Expenses is the Company s investment into Research and Development (primarily salaries and benefits) of $1,073,879 and $1,000,987, or 21.7% and 21.2% of total Operating Expenses, for the years ended June 30, 2007 and 2006, respectively, and the amortized investment on the patent estate ($170,599 and $144,327 for the years ended June 30, 2007 and 2006, respectively).

Under SFAS No. 123, *Accounting for Stock-Based Compensation*, effective January 1, 2006, non-cash compensation expense is recognized for vested options at the time of option grant. There was no compensation expense recorded under the previous accounting regulations (if the exercise price of the option grant equals the fair market value of the underlying common stock on the date of grant, which was the Company s policy).

In fiscal 2006, the discounted value of the $300,000 settlement of a patent infringement case against a former licensee and other parties, recorded as Other Income, was essentially offset by a $238,172 impairment of goodwill charge.

The Income Tax Benefit for the year ended June 30, 2007 was $101,002 as compared with $465,497 in fiscal 2006. The higher benefit from R&D tax credits generated this fiscal year resulted in a higher effective tax rate benefit. Additionally impacting the variance between the years was that there were no income tax benefit from the deductibility of the fiscal 2006 impairment of goodwill charge (as realization of the benefit is highly unlikely, a valuation allowance / reserve has been recorded for this item).

A Net Loss of $106,624 is reported for the 2007 fiscal year compared with a Net Loss of $779,377 for the 2006 fiscal year.

A Net Loss of $106,624 or $0.02 per share is reported for fiscal 2007 as compared with a Net Loss of $779,377 or $0.17 per share for fiscal 2006.

Management Comment: Delayed revenues, particularly R&D projects envisioned for fiscal 2007, while certain expenses were not deferred, resulted in a near break-even net loss of $106,624. The Company has historically self-funded its research & development programs which has financial returns years following. Such re-investment during the past few years have lead to the recent anti-thrombogenic and cell anti-mitosis technologies, currently patent pending.

The Company s results improved this fiscal year following the conclusion of various matters (patent infringement costs, impairment of goodwill charges) in fiscal 2006. Looking forward, from the cost reduction initiatives underway along with new developments and projects and the continued revenue growth of our existing products and services, we expect better times than we have seen recently.

Liquidity and Capital Resources

Working Capital as of June 30, 2007 was $701,205, down from $970,111 the prior year.

Working Capital during 2007 fiscal year was used to fund capital expenditures and the patent estate (long-term investments) as well as to satisfy mortgage obligations.

Management Comment: We continue our re-investment back into the Company, primarily in terms of R&D (personnel as well as equipment) and to our patent estate, to support future growth of our business. During the fiscal year ended June 30, 2007, the Company expended $154,788 for capital expenditures and $230,640 in patent and trademarks costs. In addition, long-term debt was reduced by $202,207.

Item 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For information concerning this item, see pages F-1 through F-8 of the Audited Financial Statements for the year ended June 30, 2007, which information is incorporated herein by reference.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 8a. DISCLOSURE CONTROLS AND PROCEDURES

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 annual report.

PART III

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information concerning this item, see "Item 1. Business - Executive Officers" and pages 3 through 11 in the Proxy Statement filed with respect to the 2007 Annual Meeting of Shareholders (the Proxy Statement), which information is incorporated herein by reference.

Item 10. EXECUTIVE COMPENSATION

For information concerning this item, see page 9 of the Proxy Statement, which information is incorporated herein by reference.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

For information concerning this item, see page 11 of the Proxy Statement, which information is incorporated herein by reference.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the past fiscal year, there have been no related party transactions.

PART IV

Item 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

The financial statements of the Company incorporated by reference in this Report are listed in the attached Index to the Financial Statements and Supplementary Data.

(a) 2. Financial Statement Schedules:

The financial statement schedules of the Company filed in this Report are listed in the attached Index to Financial Statements and Supplementary Data.

(a) 3. Exhibits (not included)

The exhibits required to be filed as part of this Report are listed in the attached Index to Exhibits.

(b) Current Reports on Form 8-K:

The Company filed four Form 8-K s during the quarter ended June 30, 2007. Each 8-K reported press releases issued by the Company: (1) Settlement of a Trade Secret Case, (2) Plans to Offer Restricted Common Stock, (3) A Supply and Support Agreement and (4) An One Year Standstill Agreement.

POWER OF ATTORNEY

The Company and each person whose signature appears below hereby appoint Manfred F. Dyck and Robert Y. Lee as attorneys-in-fact with full power of substitution, severally, to execute in the name and on behalf of the registrant and each such person, individually and in each capacity stated below, one or more amendments to the annual report which amendments may make such changes in the report as the attorney-in-fact acting deems appropriate and to file any such amendment to the report with the Securities and Exchange Commission.

SIGNATURES

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

HYDROMER, INC.

/s/ Manfred F. Dyck Manfred F. Dyck	President, Principal Executive Officer, Chairman of the Board of Directors	August 23, 2006
/s/ Robert Y. Lee Robert Y. Lee	Chief Accounting Officer	August 23, 2006

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

/s/ Manfred F. Dyck Manfred F. Dyck	President, Principal Executive Officer, Chairman of the Board of Directors	August 23, 2006
/s/ Robert H. Bea Robert H. Bea	Director	August 23, 2006
/s/ Maxwell Borow Maxwell Borow, MD	Director	August 23, 2006
/s/ Ursula M. Dyck Ursula M. Dyck	Director	August 23, 2006
/s/ Dieter Heinemann Dieter Heinemann	Director	August 10, 2006
/s/ Klaus J.H. Meckeler Klaus J.H. Meckeler, MD	Director	August 23, 2006
/s/ Frederick L. Perl Frederick L. Perl, MD	Director	August 23, 2006
/s/ Michael F. Ryan Michael F. Ryan, PhD	Director	August 23, 2006

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Hydromer, Inc. & Subsidiary

Consolidated Financial Statements

June 30, 2007 and 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Hydromer, Inc and Subsidiary

We have audited the accompanying balance sheets of Hydromer, Inc and Subsidiary as of June 30, 2007 and 2006, and the related statements of income, stockholders equity and cash flows for each of the years in the two-year period ended June 30, 2007. These financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hydromer, Inc. and Subsidiary as of June 30, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Bridgewater, New Jersey

September 21, 2007

Hydromer, Inc. & Subsidiary

Index to the Consolidated Financial Statements

June 30, 2007 and 2006

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Hydromer, Inc. & Subsidiary

Consolidated Balance Sheets

	June 30, **2007**	2006

Assets				
Current Assets:				
Cash and cash equivalents	**$**	**146,338**	$	434,865
Trade receivables less allowance for doubtful accounts of $62,044 and $44,479 as of June 30, 2007 and 2006, respectively		**1,121,752**		1,198,089
Inventory		**956,711**		988,086
Prepaid expenses		**120,448**		118,436
Deferred tax asset		**8,976**		8,976
Income Tax Refund Receivable		**-**		91,436
Other		**13,484**		127,776
Total Current Assets		**2,367,709**		2,967,664
Property and equipment, net		**3,295,992**		3,377,473
Deferred tax asset, non-current		**609,730**		507,426
Intangible Assets, net		**910,303**		849,262
Other, non-current		**-**		114,377
Total Assets	**$**	**7,183,734**	$	7,816,202
Liabilities and Stockholders Equity				
Current Liabilities:				
Accounts payable	**$**	**537,338**	$	635,010
Short-term borrowings		**514,096**		656,255
Accrued expenses		**358,301**		374,043
Current portion of deferred revenue		**32,215**		128,941
Current portion of mortgage payable		**215,394**		202,204
Income tax payable		**9,160**		1,100
Total Current Liabilities		**1,666,504**		1,997,553
Deferred tax liability		**261,958**		271,058
Long-term portion of deferred revenue		**62,978**		93,176
Long-term portion of mortgage payable		**1,878,040**		2,093,437
Total Liabilities		**3,869,480**		4,455,224
Contingencies		-		-
Stockholders Equity				
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; as of June 30, 2007, 4,698,825 shares issued and 4,687,908 shares outstanding; as of June 30, 2006, 4,655,081 shares issued and 4,644,164 shares outstanding		**3,643,815**		3,639,315
Contributed capital		**633,150**		577,750
Accumulated deficit		**(956,571)**		(849,947)
Treasury stock, 10,917 common shares at cost		**(6,140)**		(6,140)
Total Stockholders Equity		**3,314,254**		3,360,978
Total Liabilities and Stockholders Equity	**$**	**7,183,734**	$	7,816,202

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Income

	Year Ended June 30,	
	2007	2006
Revenues		
Sale of products	**$ 4,937,790**	$ 4,752,991
Service revenues	**1,525,033**	1,240,176
Royalties and Contract Revenues	**1,636,662**	1,876,562
Total Revenues	**8,099,485**	7,869,729
Expenses		
Cost of Sales	**3,138,820**	3,526,039
Operating Expenses	**4,958,433**	5,494,366
Stock Based Compensation	**55,400**	-
Impairment of Goodwill	**-**	238,172
Other Expenses / (Income), net	**154,458**	(143,974)
Benefit from Income Taxes	**(101,002)**	(465,497)
Total Expenses	**8,206,109**	8,649,106
Net Loss	**$ (106,624)**	**$** (779,377)
Loss Per Common Share	**$ (0.02)**	**$** (0.17)
Weighted Average Number of Common Shares Outstanding	**4,655,280**	4,638,843

Common stock equivalents were not included in computing diluted earnings per share as their effect would be anti-dilutive.

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Stockholders Equity

	Common Stock		Contributed	Accumulated	Treasury Stock		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
Balance June 30, 2005	4,634,859	$ 3,631,615	$ 577,750	$ (70,570)	10,917	$ (6,140)	$ 4,132,655
Exercise of Stock Options	20,222	7,700					7,700
Net Loss				(779,377)			(779,377)
Balance June 30, 2006	4,655,081	$ 3,639,315	$ 577,750	$ (849,947)	10,917	$ (6,140)	$ 3,360,978
Stock Based Compensation			55,400				55,400
Exercise of Stock Options	43,744	4,500					4,500
Net Loss				(106,624)			(106,624)
Balance June 30, 2007	**4,698,825**	**$ 3,643,815**	**$ 633,150**	**$ (956,571)**	**10,917**	**$ (6,140)**	**$ 3,314,254**

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2007	2006
Cash Flows From Operating Activities:		
Net Loss	**$ (106,624)**	$ (779,377)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities		
Depreciation and amortization	**405,868**	381,395
Impairment of Goodwill	**-**	238,172
Stock Based Compensation	**55,400**	-
Deferred income taxes	**(111,404)**	(397,219)
Changes in Assets and Liabilities		
Trade receivables	**76,337**	22,169
Inventory	**31,375**	106,841
Prepaid expenses	**(2,012)**	8,327
Other assets	**228,669**	(234,679)
Accounts payable and accrued liabilities	**(113,414)**	177,374
Deferred revenues	**(126,924)**	(116,179)
Income taxes payable	**99,496**	(83,863)
Net Cash Provided by (Used for) Operating Activities	**436,767**	(677,039)
Cash Flows From Investing Activities:		
Cash purchases of property and equipment	**(154,788)**	(338,283)
Cash payments on Patents and Trademarks	**(230,640)**	(213,449)
Cash purchases of Short-term investments	**-**	(392,633)
Maturity of Short-term investments	**-**	400,000
Net Cash Used for Investing Activities	**(385,428)**	(544,365)
Cash Flows From Financing Activities:		
Net (payments)/borrowings against Line of Credit	**(142,159)**	449,592
Repayment of long-term borrowings	**(202,207)**	(177,679)
Proceeds from the issuance of common stock	**4,500**	7,700
Net Cash (Used for) Provided by Financing Activities	**(339,866)**	279,613
Net Decrease in Cash and Cash Equivalents:	**(288,527)**	(941,791)
Cash and Cash Equivalents at Beginning of Period	**434,865**	1,376,656
Cash and Cash Equivalents at End of Period	**$ 146,338**	$ 434,865

Cash paid during the year for:		
Interest	**$ 191,004**	$ 172,823
Income taxes	**$ -**	$ 32,907

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of Operations

Hydromer, Inc. & Subsidiary (the Company) is a bio-polymer research and development company based in Branchburg, New Jersey. The Company develops polymer complexes for commercial markets in both the United States and abroad for the medical, cosmetics, veterinary sciences and industrial fields. The Company obtains patent rights on certain products from which royalty revenues are received. Its wholly owned subsidiary, Biosearch Medical Products, Inc., a U.S. based corporation, is an OEM manufacturer for various medical products companies as well as the manufacturer of its own line of endoscopic products sold to hospitals, domestically and internationally, through a network of dealers. The Company also offers R&D, engineering and contract coating services in its array of capabilities.

Principles of Consolidation

The consolidated financial statements include the accounts of Hydromer, Inc. and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term investments with original maturities of three months or less.

Short-Term Investments

Short-term investments consist of investments other than cash and cash equivalents with original maturities of greater than three months and less than one year. There were no short-term investments as of June 30, 2007 and June 30, 2006.

Inventories

Inventories are valued at the lower of cost, determined by the first-in, first-out method, or market and include appropriate amounts of labor and overhead.

Depreciation

The cost of property and equipment, which includes a reasonable portion of labor costs for equipment built in-house, is depreciated on a straight-line method over the estimated useful lives of the assets: 5-10 years for machinery and equipment, 3-5 years for furniture and office equipment and 40 years for the building. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Patents

Expenses associated with patents are prepaid and amortized over the expected life of the patent, typically 20 years. Prepaid expenses associated with patents which are not approved or abandoned are expensed in the period in which such patents are not approved or abandoned. Maintenance fees associated with existing patents are written off over 12 months. Amortization expense for the years ended June 30, 2007 and 2006 were $170,599 and $144,327, respectively. One new patent was granted during the year ended June 30, 2006.

Goodwill

Goodwill represents the excess of the purchase price of Biosearch Medical Products, Inc. over the fair market value of their net assets at the date of acquisition and through June 30, 2002, was amortized on the straight line method over 40 years. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, on July 1, 2002 in which goodwill is no longer amortized but tested for impairment on at least an annual basis. The carrying value is reviewed if the facts and circumstances, such as significant declines in sales, earnings or cash flows or material adverse changes in the business climate, suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, the impairment is determined by comparing the carrying value of goodwill to fair value. Fair value can be determined based on quoted market values, discounted cash flows or appraisals. The Company uses the present value of expected future cash inflows method.

During the year ended June 30, 2006, the Company determined that the carrying amount of the goodwill exceeded its fair value. A goodwill impairment loss of $238,172 was recognized. As of June 30, 2006, the original goodwill balance has been fully written off.

Long-Lived Assets

The Company assesses long-lived assets for impairment as required under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company reviews for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses these assets for impairment based on estimated future cash flows from these assets.

Revenue Recognition

Revenues from product and services sales are recognized at the time of shipment or services rendered provided that collection of the resulting receivable is probable. Revenues from royalties are recognized upon the sale of certain products by licensees with whom the Company has licensing agreements. Contract Revenues, which includes payments from Option, Supply or Support agreements that are typically based on time frames, are recognized in the periods to which it pertains. Deferred revenues are recorded when agreements call for payment ahead of when the amounts are earned.

Shipping and Handling Charges

The Company includes costs of shipping and handling billed to customers in Revenues and the related expense of shipping and handling costs in Cost of Sales.

Advertising

Advertising costs are expensed as incurred except for tangible assets, such as printed advertising materials, which are expensed as consumed. Advertising expense was $22,939 and $42,671 for the years ended June 30, 2007 and 2006, respectively.

Research and Development

Research and development costs, primarily employee salaries and benefits, are charged to operations when incurred and are included in operating expenses. The amounts charged to expense for the years ended June 30, 2007 and 2006 were approximately $1,073,879 and $1,000,987, respectively.

Stock Based Compensation

The Company is accounting for stock options under SFAS No. 123(R), effective January 1, 2006. Under SFAS No. 123, *Accounting for Stock-Based Compensation*, compensation expense is recognized at the time of option grant.

Previously, the Company accounted for its employee stock option plans under Accounting Principle Board Opinion No. 25, *Accounting for Stock Issued to Employees,* (APB 25) and related interpretations. Under APB 25, no compensation expense is recognized at the time of option grant when the exercise price of the Company s stock options equals the fair market value of the underlying common stock on the date of grant.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of assets and liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return

Hydromer, Inc. & Subsidiary

Notes to the Consolidated Financial Statements

consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future federal and state income taxes.

Earnings Per Share

Earnings per share, in accordance with the provisions of SFAS No. 128, Earnings Per Share, is computed by dividing net income by the weighted average number of common stock shares outstanding during the period.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts previously reported may have been reclassified to conform to the 2007 presentation.

2. CONCENTRATION OF CREDIT AND BUSINESS RISK

The Company is exposed to additional credit and business risks due to its concentration of activity with certain parties. For example, at times throughout the year, the Company may maintain certain bank accounts in excess of FDIC insured limits.

In addition, the Company provides credit in the normal course of business to customers. Ongoing credit evaluations of its customers are performed, and allowances for doubtful accounts are based on factors surrounding the credit risk of specific customers, historical trends and other information.

For the year ended June 30, 2007, the Company sold products and services and collected Contract Revenues, totaling 28% of its total revenues, to two customers, Cordis Neurovascular Systems and Cook Endoscopy (formerly Wilson Cook Medical, Inc.) who individually accounted for 15% and 13%, respectively, of the consolidated revenues. Accounts receivable from these customers accounted for 17% of total accounts receivable at June 30, 2007.

During the fiscal year ended June 30, 2006, Cordis Neurovascular Systems and Cook Endoscopy individually accounted for 18% and 14%, respectively, of total revenues. There were no outstanding accounts receivables from these customers at June 30, 2006.

3. INVENTORY

Inventory consists of:

	June 30, 2007	2006
Finished goods	**$ 325,159**	$ 328,777
Work in process	**182,092**	211,422
Raw materials	**449,460**	447,887
	$ 956,711	$ 998,086

4. OTHER ASSETS

Included in Other assets as of June 30, 2006 is $123,776 and $114,377, current and non-current portion, respectively, representing the discounted $250,000 receivable from the legal settlement arising from the Company s patent infringement claim settled in February 2006. These amounts were received by June 30, 2007.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30, 2007	2006
Land	**$ 472,410**	$ 472,410
Building	**2,155,295**	2,148,681
Machinery and equipment	**3,964,878**	3,819,631
Furniture and fixtures	**609,357**	605,558
	7,201,940	7,046,280
Less: Accumulated depreciation and amortization	**(3,905,948)**	(3,668,807)
Property and Equipment, net	**$ 3,295,992**	$ 3,377,473

Depreciation expense charged to operations was $236,269 and $236,558 for the years ended June 30, 2007 and 2006, respectively.

6. INTANGIBLE ASSETS

Intangible Assets are comprised of the following:

	June 30, 2007	2006
Patents	**$ 1,241,944**	$ 1,101,153
Trademarks	**76,051**	72,955

Less: Accumulated amortization	**(407,692)**	(324,846)
Intangible Assets, net	**$ 910,303**	$ 849,262

Future amortization of the Intangible Assets, as of June 30, 2007, are as follows:

Year ending June 30,	
2008	$ 121,913
2009	81,687
2010	77,431
2011	76,312
2012	74,696
Thereafter	478,2640
	$ 910,303

Hydromer, Inc. & Subsidiary

Notes to the Consolidated Financial Statements

7. LONG-TERM DEBT AND CREDIT FACILITY

The Company s facility is financed by two ten-year mortgage notes, a $555,000 first Mortgage and a $1,990,000 second mortgage, bearing fixed interest rates of 6.52% and 6.38 %, respectively. The notes amortize with monthly payments and are secured by the real estate and improvements and all rents from leases subsequently entered into. As of June 30, 2007, the book value of the real estate and improvements was $2,280,219. The last complete appraisal was conducted in 2003 and reflected a market value of $3,200,000.

Due to the net loss for the year ended June 30, 2006, the Company did not meet certain financial ratios required under the loan documents. A waiver has been granted by the lender for both years ending June 30, 2006 and June 30, 2007. Although waivers were granted by the lender, there is no certainty that future waivers would be granted.

The Company also has a revolving line of credit agreement which allows borrowings of up to $675,000 as of June 30, 2007, secured by all trade receivables and inventories. The line bears interest, payable monthly at LIBOR plus 3.00%. As of June 30, 2007, the interest rate was 8.32%. This line was renewed in January 2007 for an one-year period with the available line declining $12,500 each month down to $600,000 at maturity on January 31, 2008. As of June 30, 2007 and 2006, $514,096 and $656,255 were outstanding on the line of credit respectively.

Long-term debt is comprised of the following:

	June 30, **2007**	2006
Mortgage note	**$ 390,075**	$ 438,234
Second Mortgage Loan	**1,703,359**	1,857,407
Less: Current Maturities	**(215,394)**	(202,204)
Long-term Debt, Net of Current Maturities		
	$ 1,878,040	$ 2,093,437

Total maturities of long-term debt are as follows:

Year ending June 30,

2008	$ 215,394
2009	230,182
2010	245,604
2011	262,060
2012	279,439
Thereafter	860,755
	$ 2,093,434

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value because of the short maturity of these instruments. The fair value of the Company s long-term debt approximates its carrying value as it is based on or about the current rates offered to the Company for debt of the same remaining maturities with similar collateral requirements.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

9. INCOME TAXES

The income tax (benefit) provision is comprised of the following:

	Federal	State	Total
Year Ended June 30, 2007			
Current	**$ -**	**$ 9,160**	**$ 9,160**
Deferred	**(138,962)**	**28,800**	**(110,162)**
	$ (138,962)	**$ 37,960**	**$ (101,002)**
Year Ended June 30, 2006			
Current	$ (71,185)	$ 2,907	$ (68,278)
Deferred	(296,253)	(100,966)	(397,219)
	$ (367,438)	$ (98,059)	$ (465,497)

The Company s deferred tax asset and liability as presented in the Company s financial statements are comprised of the following temporary differences:

	June 30, **2007**	2006
Deferred Tax Asset		
Net Operating Losses	**$ 307,306**	$ 345,510
Adjustment of Goodwill	**196,069**	196,069
Research & Development Credits	**384,402**	346,643
Valuation allowance	**(269,071)**	(371,820)
Total Deferred Tax Assets	**618,706**	516,402
Deferred Tax Liability		
Depreciation	**(261,958)**	(271,058)
Total Deferred Tax Liability	**$ (261,958)**	$ (271,058)

Deferred taxes are recognized for temporary differences between the bases of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (using accelerated depreciation methods for income tax purposes). The Company s adjustment to Goodwill in 2004 and 2006 created a deferred tax asset, which although has an indefinite life, has been fully reserved for as realization of its benefit is unlikely.

The Company has net operating loss carry forwards of approximately $481,130 and $1,037,426 for Federal and State tax purposes respectively. These net operating loss carry forwards may be used to reduce federal and state taxable income and tax liabilities in future years and expire in various years through June 30, 2020 and June 30, 2014 for Federal and State tax purposes, respectively. In addition, the Company has Research and Development Tax Credits for State tax purposes of approximately $361,753 which expires in various years through June 30, 2020.

The Company s provision for income taxes differs from applying the statutory U.S. federal income tax rate to the income before income taxes. The primary differences result from providing for state income taxes, generation of allowable tax credits and from deducting certain expenses for financial statement purposes but not for federal income tax purposes.

A reconciliation between taxes computed at the federal statutory rate and the consolidated effective tax rate follows:

	June 30, **2007**		2006	
Federal statutory tax rate	**(34.0)**	**%**	(34.0)	%
State income tax - net of federal tax benefit	**(22.0)**		(4.5)	
R & D credits	**(18.2)**		(7.8)	
Adjustment in valuation allowance	**20.5**		-	
Permanent and other differences	**5.1**		8.9	
	(48.6)	**%**	(37.4)	%

Hydromer, Inc. & Subsidiary

Notes to the Consolidated Financial Statements

10. STOCK OPTIONS AND AWARDS

On February 22, 2000 the Board of Directors approved an option plan that granted each active director 2,000 options for each meeting attended, awarded at the annual meeting at the 5-day market price average.

The following options were awarded to the Board of Directors under this plan:

Issuance Date	Options Issued	Exercise Price	Expiration Date	Options Exercised
Nov 13, 2002	80,000	$0.45	Nov 13, 2007	10,000
Nov 19, 2003	52,000	$1.10	Nov 19, 2008	-
Nov 17, 2004	56,000	$2.10	Nov 17, 2009	-
Nov 16, 2005	62,000	$0.95	Nov 16, 2010	-
Nov 15, 2006	50,000	$1.18	Nov 15, 2011	-

There were no other stock option issuances during the 2006 and 2007 fiscal years.

A summary of activity under the plan for the years ending June 30, 2007 and 2006 is as follows:

	Common Stock Options Outstanding	
	Shares	Weighted Average Exercise Price
Balance, June 30, 2005	522,524	$ 1.08
Granted	62,000	0.95
Exercised	(23,700)	0.55
Canceled	(158,824)	1.18
Balance, June 30, 2006	402,000	$ 1.04
Granted	50,000	1.18
Exercised	(70,000)	0.84
Canceled	(92,000)	1.05
Balance, June 30, 2007	**290,000**	**$ 1.12**

Following is a summary of the status of options outstanding as of June 30, 2007:

Outstanding Options				Exercisable Options	
Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$0.45 - $0.85	70,000	0.4 years	$0.45	70,000	$0.45
$0.86 - $1.68	164,000	3.1 years	$1.07	164,000	$1.07
$1.69 - $2.10	56,000	2.4 years	$2.10	56,000	$2.10
	290,000	2.3 years	$1.12	290,000	$1.12

Stock Option Grants

The Company accounts for stock option grants under the provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, effective January 1, 2006, in which compensation expense is recognized for the fair value of the stock options issued.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions for grants: dividend yield of 0%; expected volatility of 151%; risk-free interest rate of 6.0%; and expected life of 5 years.

Prior to January 1, 2006, the Company followed the disclosure only provisions of SFAS No. 123, where no compensation expense is recognized for stock options issued. Had compensation expense been recognized for the options granted and vested prior to January 1, 2006, the Company s net loss and net loss per share for the 2006 fiscal year, would have been reflected as to the following pro forma amounts based on a dividend yield of 0%; expected volatility of 115%; a risk-free interest rate of 5.1%; and expected life of 5 years:

	2006
Net Loss:	
As reported	$ (779,377)
Pro forma	(809,460)
Basic Loss per Share:	
As reported	$ (0.17)
Pro forma	(0.17)

11. RETIREMENT PLAN

The Company sponsors a qualified 401(k) plan covering substantially all full time employees under which eligible employees can defer a portion of their annual compensation. The Company determines annually, the amount of matching contributions, which recently has been 25% o n 6% of the employees salary. The Company s matching contribution made to the plan during the year ended June 30, 2006 was $35,094.

12. LEASES

There were no material non-cancelable lease terms in excess of one year as of June 30, 2007.

13. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share:

	2007	2006
Numerator:		
Net loss	**$ (106,624)**	$ (779,377)
Denominator:		
Denominator for earnings per share		
- weighted average shares outstanding	**4,655,280**	4,638,843
Loss per share	**$ (0.02)**	$ (0.17)

Common stock equivalents of 290,000 and 402,000 for the years ended June 30, 2007 and 2006, respectively, were not included in computing diluted earnings per share as their effect would be anti-dilutive.

14. INDUSTRY SEGMENT INFORMATION

The Company operates two primary business segments: (1) Polymer Research and (2) Medical Products.

Products included in the polymer research segment are Aquadapt®, Aquamere®, Aquatrix®, Dermaseal®, Hydromer® Anti-Fog/Condensation Control Coatings, Hydromer® Lubricious Coatings, Sea-Slide® and T-HEXX® Barrier Dips and Sprays. Research and Development services and all of the Company s royalties and contract revenues are reported in this segment.

The medical products segment includes an OEM product line of bipolar coagulation probes, placement catheters, bilary stents, jejunal and enteral feeding accessories, guidewires, biofeedback devices for fecal and urinary incontinence and other endoscopic accessories. Service revenues, including coating services and engineering services, are included in this segment.

Due to the multitude of products offered and the product gross margins, the Company does not track sales volumes by products.

The Company operates globally in its segments with several large customers that are important to their operating results. One such customer accounted for 22% and 26% of the polymer research segment sales for the 2007 and 2006 fiscal years, respectively. For the medical products segment, the top three customers accounted for 47% and 48% of that segment s 2007 and 2006 sales, respectively.

The Company evaluates the segments by revenues, total expenses and earnings before income taxes. The Company s assets are not reviewed by business segment. The accounting policies of these segments are described in the summary of significant accounting policies.

Corporate Overhead, primarily the salaries and fringes of senior management, support services (Accounting, Legal, Human Resources and Purchasing) and other shared services (Building maintenance and warehousing), is reflected separately from the results of the business segments in the following:

	Polymer Research*	Medical Products	Corporate Overhead	Total
Year Ended June 30, 2007				
Revenue	**$ 4,250,497**	**$ 3,848,988**		**$ 8,099,485**
Expenses	**(3,524,288)**	**(3,207,677)**	**$ (1,575,146)**	**(8,307,111)**
Earnings (Loss) before Income Taxes				
	$ 726,209	**$ 641,311**	**$ (1,575,146)**	**$ (207,626)**
Year Ended June 30, 2006				
Revenue	$ 4,322,155	$ 3,547,574		$ 7,869,729
Expenses	(3,629,749)	(3,761,704)	$ (1,484,978)	(8,876,431)
Earnings (Loss) before Income Taxes				
	$ 692,406	$ (214,130)	$ (1,484,978)	$ (1,006,702)

* Excludes the Impairment of Goodwill of $238,172 in Fiscal 2006 as such charge-off is not included in the periodic reporting segment evaluations.

Geographic revenues were as follows for the years ended June 30,

	2007	2006
Domestic	**85%**	82%
Foreign	**15%**	18%

15. CONTINGENCIES

Royalty revenues and support fees recorded by the Company are based on the sales of products as reported by the Company s customers, which has the risk of being under- or over-reported. To minimize such risks, the Company s management utilizes its knowledge and understanding of the customer s business, the market and other pertinent factors in assessing the validity of reported royalties. In addition, the Company may have a right to audit the amounts reported.

The Company has not received any claims by its customers for possible overpayment of royalties or support fees.

The Company is currently a defendant in a product liability action which is covered within the Company s Product Liability Insurance policy. Management does not expect the outcome to have a material impact to the financial statements.

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INDEX TO EXHIBITS

3.a Certificate of Incorporation of the Company, as amended to date

3.b By-Laws of the Company, as amended to date

10.a Minutes of Meeting of the Board of Directors of the Company held on March 5, 1981 with respect to stock options granted to Manfred F. Dyck (Incorporated by reference to Exhibit 10.i to the Registration Statement).

10.b Agreement dated August 11, 1981 between Horizon Concepts, Inc., and the Company (Incorporated by reference to Exhibit 10.c to the Registration Statement).

10.c Agreement dated January 27, 1982 between Reliable Pharmaceutical Company, Inc. and the Company (Incorporated by reference to Exhibit 10.d to the Registration Statement).

10.d License Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.g to the Registration Statement).

10.e Management Services Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.h to the Registration Statement).

10.f Amendment dated October 7, 1982 to Agreement dated January 27, 1982 between Reliable Pharmaceutical Company, Inc. and the Company, together with letter dated October 14, 1982 from Reliable Pharmaceutical Company, Inc. to the Company (Incorporated by reference to Exhibit 10.f to the 1983 Annual Report).

10.g Hydromer Coating agreement dated February 11, 1983 between Pacesetter Systems, Inc. and the Company (Incorporated by reference to Exhibit 10.g to the 1983 Annual Report).

10.h Lease Agreement dated April 5, 1983 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.h to the 1983 Annual Report).

10.i License Agreement dated April 25, 1983 between CardioSearch Inc. and the Company (Incorporated by reference to Exhibit 10.i to the 1983 Annual Report).

10.j Trademark License Agreement dated April 25, 1983 between CardioSearch Inc. and the Company (Incorporated by reference to Exhibit 10.j to the 1983 Annual Report).

10.k Agreement dated August 31, 1983 between Becton, Dickinson & Company and the Company (Incorporated by reference to Exhibit 10.l to the 1983 Annual Report).

10.l Current Report on Form 8-K filed May 30, 1986

10.m Hydromer Coating License Agreement dated September 30, 1984 between Axiom Medical, Inc. and the Company (Incorporated by reference to Exhibit 10.m to the 1984 Annual Report).

10.n 1982 Stock Option Plan of the Company (Incorporated by reference to Exhibit 10.m to the 1983 Annual Report).

10.o Amendment dated June 26, 1984 to Agreement dated August 3, 1983 between Becton, Dickinson & Company and the Company (Incorporated by reference to Exhibit 10.o to the 1984 Annual Report).

10.p License Agreement dated July 31, 1984 between Kendall Company and the Company (Incorporated by reference to Exhibit 10.p to the 1984 Annual Report).

10.q License Agreement dated March 1, 1985 between Van-Tec Inc. and the Company and Letter of Amendment thereto dated June 13, 1985 (Incorporated by reference to Exhibit 10.o to the 1985 Annual Report).

10.r Telex dated June 24, 1985 terminating License Agreement with CardioSearch Inc. (Incorporated by reference to Exhibit 10.p to the 1984 Annual Report).

10.s Amendment dated as of December 31, 1984 to Management Services Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.q to the 1985 Annual Report).

10.t Lease Renewal Agreement dated April 15, 1985 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.r to the 1985 Annual Report).

10.u Lease Agreement dated December 4, 1984 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.s to the 1985 Annual Report).

10.v License Agreement dated April 11, 1986 between Axiom Medical, Inc. and the Company (Incorporated by reference to Exhibit 10.i to the 1986 Annual Report).

10.w License Agreement dated September 13, 1985 between U. S. Viggo and the Company (Incorporated by reference to Exhibit 10.c to the 1986 Annual Report).

10.x License Agreement dated March 27, 1986 between Wilkinson Sword Limited and the Company (Incorporated by reference to Exhibit 10.f of the 1986 Annual Report).

10.y Lease Renewal Agreement dated April 15, 1987 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.y to the 1987 Annual Report).

10.z License Agreement dated April 30, 1986 between HPK International and the Company (Incorporated by reference to Exhibit 10.j to the 1986 Annual Report).

10.aa License Agreement dated August 1, 1986 between Film Specialties, Inc. and the Company (Incorporated by reference to Exhibit 10.aa to the 1987 Annual Report).

10.ab Lease Renewal Agreement dated April 15, 1988 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ab to the 1988 Annual Report).

10.ac License Agreement dated June 30, 1987 between Richards Medical Company and the Company (Incorporated by reference to Exhibit 10.ac to the 1988 Annual Report).

10.ad License Agreement dated December 1, 1987 between Mallinckrodt, Inc. and the Company (Incorporated by reference to Exhibit 10.ad to the 1988 Annual Report).

10.ae Option Agreement dated January 28, 1988 between Cordis Corporation and the Company (Incorporated by reference to Exhibit 10.ae to the 1988 Annual Report).

10.af Lease Agreement dated April 15, 1988 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.ag of the 1988 Annual Report).

10.ag Letters dated June 11, 1987 and September 22, 1987 to U. S. Viggo, Inc. modifying License Agreement dated September 13, 1985, to cover only central venous catheters (Incorporated by reference to Exhibit 10.ag to the 1988 Annual Report).

10.ah Lease Renewal Agreement dated April 15, 1989 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ah to the 1989 Annual Report).

10.ai Amendment dated October 1, 1988 to License Agreement dated September 13, 1985, between U. S. Viggo and the Company (Incorporated by reference to Exhibit 10.ai to the 1989 Annual Report).

10.aj License Agreement dated October 20, 1988 between Cordis Corp. and the Company (Incorporated by reference to Exhibit 10.aj to the 1989 Annual Report).

10.ak License Agreement dated March 31, 1989 between Cathlab Corp. and the Company (Incorporated by reference to Exhibit 10.ak to the 1989 Annual Report).

10.al Amendment dated December 1, 1988 to License Agreement dated August 1, 1986 between Film Specialties, Inc. and the Company (Incorporated by reference to Exhibit 10.al to the 1989 Annual Report).

10.am Finders Agreement dated August 20, 1987 between Phoenix Chemical, Inc. and the Company (Incorporated by reference to Exhibit 10.am to the 1989 Annual Report).

10.an License Agreement dated September 10, 1989 between the Stent Division of Schneider and the Company (Incorporated by reference to Exhibit 10.an to the 1990 Annual Report).

10.ao License Agreement dated March 30, 1990 between Cosmo Ikko Company and the Company (Incorporated by reference to Exhibit 10.ao to the 1990 Annual Report).

10.ap License Agreement dated April 12, 1990 between Interventional Therapeutics, Inc. and the Company and amendment dated May 7, 1990 to the Agreement dated April 12, 1990 between Interventional Therapeutics, Inc. and the Company (Incorporated by reference to Exhibit 10.ap to the 1990 Annual Report).

10.aq Amended License Agreement dated January 1, 1990 between the Wilkinson Sword group of companies and the Company (Incorporated by reference to Exhibit 10.aq the 1990 Annual Report).

10.ar Lease Agreement dated April 15, 1990 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ar to the 1990 Annual Report).

10.as Amendment to the Agreement dated July 31, 1984 between Kendall Company and the Company (Incorporated by reference to Exhibit 10.as to the 1990 Annual Report).

10.at License Agreement dated January 11, 1991 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.at to the 1991 Annual Report).

10.au License Agreement dated May 16, 1991 between I E Sensors and the Company (Incorporated by reference to Exhibit 10.au to the 1991 Annual Report).

10.av Lease Renewal Agreement dated April 15, 1991 between Salem Realty and The Company (Incorporated by reference to Exhibit 10.av to the 1991 Annual Report).

10.aw License Agreement dated July 25, 1991 between Johnson & Johnson Orthopaedics and the Company (Incorporated by reference to Exhibit 10.aw to the 1992 Annual Report).

10.ax License Agreement dated August 19, 1991 between Navarre Laboratories Ltd. and the Company (Incorporated by reference to Exhibit 10.ax to the 1992 Annual Report).

10.ay Amended License Agreement dated September 15, 1991 between Boston Scientific Corp. and the Company (Incorporated by reference to Exhibit 10.ay to the 1992 Annual Report).

10.az Option/License Agreement dated September 23,1991 between Elan Corp. PLC and the Company (Incorporated by reference to Exhibit 10.az to the 1992 Annual Report).

10.ba Lease Agreement dated November 1, 1991 between Morton Street Realty and the Company (Incorporated by reference to Exhibit 10.ba to the 1992 Annual Report).

10.bb License Agreement dated August 17, 1992 between SCIMED Peripheral Interventions, division of SCIMED Life Systems, Inc. and the Company. (Incorporated by reference to Exhibit 10.bb to the 1993 Annual Report).

10.bc License Agreement dated March 9, 1993 between Arrow International, Inc. and the Company. (Incorporated by reference to Exhibit 10.bc to the 1993 Annual Report).

10.bd License Agreement dated April 28, 1993 between St. Jude Medical, Inc. and the Company. (Incorporated by reference to Exhibit 10.bd to the 1993 Annual Report).

10.be License Agreement dated November 11, 1993 between Katoh Hatsujyo Kaisha, Ltd. and the Company. (Incorporated by reference to Exhibit 10.be to the 1994 Annual Report).

10.bf Lease Agreement dated June 9, 1995 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.bf to the 1995 Annual Report).

10.bg Amendment dated September 20, 1995 to License Agreement dated April 28, 1993 between St. Jude Medical, Inc. and the Company. (Incorporated by reference to Exhibit 10.bg to the 1996 Annual Report).

10.bh License Agreement dated April 12, 1990 between Interventional Therapeutics and the Company was terminated effective December 22, 1995. (Incorporated by reference to Exhibit 10.bh to the 1996 Annual Report).

10.bi License Agreement dated May 16, 1991 between I E Sensors and the Company was terminated effective December 31, 1995. (Incorporated by reference to Exhibit 10.bi to the 1996 Annual Report).

10.bj Consented to the assignment of license agreement dated April 28,1993 between St. Jude Medical, Inc. and the Company to CR Bard dated January 18, 1996. (Incorporated by reference to Exhibit 10.bj to the 1996 Annual Report).

10.bk License Agreement dated April 30, 1986 between HPK International and the Company was terminated effective February 19, 1996. (Incorporated by reference to Exhibit 10.bk to the 1996 Annual Report).

10.bl License Agreement dated June 6, 1996 between Biosearch Medical Products Inc. and the Company. (Incorporated by reference to Exhibit 10.bl to the 1996 Annual Report).

10.bm License Agreement dated August 1, 1996 between Biosearch Medical Products Inc. and the Company.

10.bn Amended License Agreement dated September 4, 1996 between SCIMED (Boston Scientific Corporation) and the Company.

10.bo License Agreement dated January 6, 1997 between Sherwood Davis & Geck and the Company.

10.bp Use permit for certain designated area dated May 4, 1997 between Biosearch Medical Products Inc. and the Company

10.bq Contract of sale between Biosearch Medical Products and the Company for the sale of 35 Industrial Parkway dated 3/31/98

10.br Note and mortgage with PNC Bank dated 6/12/98
10.bs 3 year lease agreement with Biosearch Medical Products dated 6/12/98 for 35 Industrial Parkway
10.bt License of technology, supply and stock purchase agreement with C.R.Bard dated 2/25/99
10.bu Trademark and technology license agreement with AST dated 3/9/99
10.bv License of two gel patents from Ridge Scientific dated 11/1/98
10.bw License and Supply agreement with Gallini SRL dated 6/28/00
10.bx Standstill agreement with license option with IMED Pharma Inc. dated 3/30/00
10.by License of technology with Symbiotech Medical Inc. dated 3/28/00
10.bz License and supply agreement with TP Orthodontics Inc. dated 3/30/00
10.ca License Agreement dated July 1, 2000 between Becton Dickinson and Company, Inc. and the Company.

10.cb License Agreement dated January 1, 2001 between LHS Limited and LHS Holding Limited, English dba KLEENCARE and the Company.
10.cc License Agreement dated April 17, 2001 between Tyco Healthcare Group LP and the Company.
10.cd Construction Contract dated April 19, 2001 between REDCO Engineering & Construction Corp and the Company.
10.ce Service Agreement dated April 23, 2001 between Tyco Healthcare Group LP and the Company.
10.cf Loan Agreement dated June 7, 2001 between New Millenium Bank and the Company.
10.cg By-Laws Articles of Incorporation.
10.ch Loan Agreement dated June 30, 2005 between Wachovia Bank, N.A. and the Company.
24. Power of Attorney (see "Power of Attorney" in the Annual Report on Form 10-KSB).
31.1 Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).

31.2 Certification of Robert Y. Lee, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Manfred F. Dyck, Chief Executive Officer of Hydromer, Inc.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Robert Y. Lee, Chief Financial Officer of Hydromer, Inc.

INDEX TO 2007 10-KSB CERTIFICATIONS

Exhibit No.	Description
31.1	Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
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