

Edgar Filing: HYDROMER INC - Form 10QSB

HYDROMER INC
Form 10QSB
February 14, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-QSB

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

For the quarter ended December 31, 2004

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 Pkwy., 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 ()

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

Class

Outstanding at December 31, 2004

Common

4,617,987

HYDROMER, INC.

INDEX TO FORM 10-QSB
December 31, 2004

Page No.

Part I - Financial Information

Edgar Filing: HYDROMER INC - Form 10QSB

Consolidated Financial Statements

Balance Sheets - December 31, 2004 & June 30, 2004.....	2
Statements of Income for the three months and six months ended December 31, 2004 and 2003.....	3
Statements of Cash Flows for the six months ended December 31, 2004 and 2003.....	4
Notes to Financial Statements.....	5
Management's Discussion and Analysis of the Financial Condition and Results of Operations.....	6
Part II - Other Information.....	8

EXHIBIT INDEX

Exhibit No.	Description of Exhibit	
33.1	SEC Section 302 Certification - CEO certification....	10
33.2	SEC Section 302 Certification - CFO certification....	11
99.1	Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.....	12
99.2	Certification of Robert Y. Lee, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.....	12

-1-

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	December 31, 2004	June 30, 2004
	----- UNAUDITED	----- AUDITED
Assets		
Current Assets:		
Cash and cash equivalents.....	\$ 253,224	\$ 142,476
Trade receivables less allowance for doubtful accounts of \$31,497 as of December 31, 2004 and \$10,727 as of June 30, 2004.....	1,852,776	1,715,309
Inventory.....	893,925	808,989
Prepaid expenses.....	86,780	124,799
Deferred tax asset.....	160,101	141,798
Other.....	32,681	32,638
	-----	-----
Total Current Assets.....	3,279,487	2,966,009

Edgar Filing: HYDROMER INC - Form 10QSB

Property and equipment, net.....	3,115,692	2,921,560
Intangible assets, net.....	767,715	676,291
Goodwill, net.....	238,172	238,172
	-----	-----
Total Assets	\$ 7,401,066	\$ 6,802,032
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable.....	\$ 563,461	\$ 524,917
Short-term borrowings.....	652,639	131,010
Accrued expenses.....	302,327	246,019
Bonus payable.....	-	187,635
Current portion of deferred revenue.....	158,500	26,000
Current portion of mortgage payable.....	92,937	91,507
Income tax payable.....	40,110	88,317
	-----	-----
Total Current Liabilities.....	1,809,974	1,295,405
Deferred tax liability.....	203,222	191,500
Long-term portion of deferred revenue.....	173,500	104,000
Long-term portion of mortgage payable.....	1,317,562	1,363,723
	-----	-----
Total Liabilities	3,504,258	2,954,628
	-----	-----
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 December 31, 2004, 4,628,904 shares issued and 4,617,987 shares outstanding; as of June 30, 2004, 4,608,904 shares issued and 4,597,987 shares outstanding.....	3,631,615	3,615,615
Contributed capital.....	577,750	577,750
Accumulated deficit.....	(306,417)	(339,821)
Treasury stock, 10,917 common shares at cost.....	(6,140)	(6,140)
	-----	-----
Total Stockholders' Equity	3,896,808	3,847,404
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 7,401,066	\$ 6,802,032
	=====	=====

-2-

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
	-----		-----	
	UNAUDITED		UNAUDITED	
Revenues				
Sale of products.....	\$1,202,592	\$1,236,708	\$2,273,755	\$2,211,959
Service revenues.....	303,683	154,568	585,312	261,209
Royalties, options and				

Edgar Filing: HYDROMER INC - Form 10QSB

licenses.....	675,421	590,410	1,268,959	1,148,383
	-----	-----	-----	-----
Total Revenues.....	2,181,696	1,981,686	4,128,026	3,621,551
Expenses				
Cost of Sales.....	757,406	755,670	1,456,163	1,343,485
Operating Expenses.....	1,302,102	1,061,255	2,579,886	2,072,925
Other Expenses.....	25,780	31,214	47,560	61,952
Provision for Income Taxes...	39,618	53,404	11,012	53,663
	-----	-----	-----	-----
Total Expenses.....	2,124,906	1,901,543	4,094,621	3,532,025
	-----	-----	-----	-----
Net Income.....	\$ 56,790	\$ 80,143	\$ 33,405	\$ 89,526
	=====	=====	=====	=====
Earnings Per Common Share.....	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.02
	=====	=====	=====	=====
Weighted Average Number of Common Shares Outstanding....	4,613,150	4,597,063	4,605,569	4,592,525

The effects of the common stock equivalents on diluted earnings per share are not included as they have no impact.

-3-

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

	Six Months Ended December 31,	
	2004	2003
	-----	-----
	UNAUDITED	UNAUDITED
Cash Flows From Operating Activities:		
Net Income.....	\$ 33,405	\$ 89,526
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Depreciation and amortization.....	97,452	90,244
Deferred income taxes.....	(6,581)	(4,000)
Changes in Assets and Liabilities		
Trade receivables.....	(137,467)	(167,305)
Inventory.....	(84,936)	(39,418)
Prepaid expenses.....	38,019	16,201
Patents and Trademark.....	(91,424)	(36,372)
Other assets.....	(43)	13,263
Accounts payable and accrued liabilities.....	109,216	156,692
Income taxes payable.....	(48,207)	37,133
	-----	-----
Net Cash (Used for) Provided by Operating Activities.....	(90,566)	155,964
	-----	-----
Cash Flows From Investing Activities:		
Cash purchases of property and equipment.....	(291,584)	(118,925)

Edgar Filing: HYDROMER INC - Form 10QSB

Net Cash Used for Investing		
Activities.....	(291,584)	(118,925)
Cash Flows From Financing Activities:		
Net borrowings against Line of		
Credit.....	521,629	56,683
Repayment of long-term borrowings.....	(44,731)	(597,774)
Proceeds from long-term borrowings.....	-	555,000
Proceeds from the issuance of common		
stock.....	16,000	7,497
Net Cash Provided by Financing		
Activities.....	492,898	21,406
Net Increase in Cash and Cash Equivalents:	110,748	58,445
Cash and Cash Equivalents at Beginning of		
Period.....	142,476	97,676
Cash and Cash Equivalents at End of		
Period.....	\$ 253,224	\$ 156,121
	=====	=====

-4-

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY Notes to Consolidated Financial Statements

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

Segment Reporting:

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

The results for the six months ended December 31, by segment are:

	Polymer Research	Medical Products	Corporate Overhead	Total
2004				
Revenues.....	\$ 2,631,063	\$ 1,496,963	-	\$ 4,128,026
Expenses.....	(1,762,884)	(1,683,097)	\$ (637,628)	(4,083,609)
Earnings (Loss) before	-----	-----	-----	-----
Income Taxes.....	\$ 868,179	\$ (186,134)	\$ (637,628)	\$ 44,417
	=====	=====	=====	=====
2003				
Revenues.....	\$ 2,245,559	\$ 1,375,992	-	\$3,621,551
Expenses.....	(1,456,255)	(1,451,412)	(570,695)	(3,478,362)
	-----	-----	-----	-----

Edgar Filing: HYDROMER INC - Form 10QSB

Earnings (Loss) before					
Income Taxes.....	\$	789,304	\$	(75,420)	\$ (570,695) \$ 143,189
		=====		=====	=====

The prior period segment information has been restated to conform to the current year presentation.

Geographic revenues were as follows for the six months ended December 31,

	2004	2003
	-----	-----
Domestic	82%	82%
Foreign	18%	18%

-5-

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

Results of Operations

The Company's revenues for the quarter ended December 31, 2004 were \$2,181,696 as compared to \$1,981,686 for the same period last year or a 10.1% increase. Revenues for the six months ended December 31, 2004 were \$4,128,026, up 14.0% from \$3,621,551 the corresponding period a year ago. Revenues are comprised of the sale of Products and Services and Royalty, Options and License payments.

Product sales and services were \$1,506,275 for the quarter ended December 31, 2004 as compared to \$1,391,276 for the same period last year, an increase of 8.3%. For the six months ended December 31, 2004, product sales and services were \$2,859,067 as compared to \$2,473,168 the prior year, a 15.6% increase. Stronger sales in our contract coating, R&D Services and Cosmetic product lines this year contributed to the increase.

Royalty, license and option revenues from patented products were \$675,421 for the quarter, up 14.4% from \$590,410 the same period a year ago. For the six months ended December 31, 2004, royalty, license and option revenues were \$1,268,959, up 10.5% from \$1,148,383 the same period a year ago.

As of December 31, 2004, our open sales order book was approximately \$982,000, which represents orders for delivery during the remainder of the current fiscal year. Some of these orders are subject to cancellation, however, the Company is of the opinion that no substantial cancellations will occur. Our open order book excludes though, future orders that would come up during the normal course of business for immediate delivery also during this fiscal year.

Total Expenses for the quarter ended December 31, 2004 were \$2,124,906 as compared with \$1,901,543 the year before, or an increase of 11.7%. For the six months ended December 31, 2004, total Expenses were \$4,094,621 as compared with \$3,532,025 the same period the year before, an increase of 15.9%

The Company's Cost of Goods Sold was \$757,406 for the quarter ended December 31, 2004 as compared with \$755,670 the year prior, an increase of 0.2%. On a year-to-date basis, cost of goods sold was \$1,456,163 this year as compared with \$1,343,485 the corresponding

Edgar Filing: HYDROMER INC - Form 10QSB

period a year ago, an increase of 8.4%. There was a higher cost of goods sold corresponding to the increase in products and services revenues.

Operating expenses were \$1,302,102 for the quarter ended December 31, 2004 as compared with \$1,061,255 the year before, an increase of \$240,847 or 22.7%. For the six month periods, operating expenses were \$2,579,886 this year as compared with \$2,072,925 the previous year. The addition of four scientists, a production manager and a QC manager since March 1, 2004, as part of the Company's investment for the future, resulted in an increase of \$192,000 in higher personnel costs. In addition, during this six month period, the Company expended an additional \$80,000 in litigation costs in its continued infringement claim against a former licensee and other parties.

Interest expense for the six months ended December 31, 2004 and December 31, 2003 were \$50,934 and \$63,745, respectively, lower this period as a result of the lower interest rates: from the refinance of the first mortgage in October 2003 and from the amortization of the mortgage balances.

-6-

Income before Income Taxes was \$96,408 for the current quarter as compared with \$133,547 the same period a year before. For the six months ended December 31, 2004, Income before Income Taxes was \$44,417 compared with \$143,189 a year ago.

Net Income of \$56,790 (\$0.01 per share) is reported for the quarter ended December 31, 2004 as compared to Net Income of \$80,143 (\$0.02 per share) the year before. For the six months ended December 31, 2004, Net Income of \$33,405 (\$0.01 per share) is reported as compared to Net Income of \$89,526 (\$0.02 per share) the year before.

Our reinvestment back into the Company (primarily from an increase in R&D staffing) increased current operating expenses for planned returns in the future.

Financial Condition

Working capital decreased \$201,090 during the six months ended December 31, 2004. Management believes that its current working capital and available line of credit, along with expected income and expense streams, are sufficient to maintain its current level of operations.

Operating activities used \$90,566 for the six month period ended December 31, 2004.

The Net income adjusted for non-cash expenses, provided \$124,276 in net cash. Working capital accounts utilized \$214,842 in net cash: primarily due to the increase in accounts receivables \$137,467 and \$91,424 for patent expenses.

Investing activities used \$291,584 on capital expenditures and financing activities provided \$492,898 during the six months ended December 31, 2004.

Capital expenditures (the adding of new production capabilities and facilities to meet current demand as well as expanding our QA laboratories and general building maintenance & improvements) were the Company's investing activities this period.

Edgar Filing: HYDROMER INC - Form 10QSB

The Company manages its working capital and other cash requirements through utilization of its available short-term borrowings - a revolving Line of Credit. During the six months ending December 31, 2004, the Company borrowed, net of repayments, \$521,629 from the Line-of-Credit.

Due to the Company's self-funding of capital expenditures, which was un-typically high, the Company did not meet a ratio coverage covenant on its mortgage loan. During the past twelve months the Company has added new facilities and equipment in the areas of production, research and development and Quality Assurance as well as repaired its roof and replaced HVAC equipment. The Company is near completion of this initiative which will be sufficient for the existing and near future level of operations and R&D initiatives.

The Company's ability to repay the loan under the normal terms of the loan is unhindered and they believe that this issue can be resolved at no or minimal costs.

-7-

Disclosure Controls and Procedures

The evaluation of the Company's Internal Controls Environment concluded that it was effective for the safeguarding of assets and in ensuring that management is presented material information regarding the organization. The evaluation also determined that there are areas that could be improved upon, however, the controls and procedures in place were appropriate for the type and size of the Company.

The Company has again reviewed its Internal Controls Environment during the prior 90 days, and it has been determined that there have been no significant changes in internal controls or in other factors that could significantly affect the financial statements.

Litigation:

In May of 2004 the Company filed a suit in the District Court of New Jersey against a former licensee of its T-Hexx products and against an agricultural distributor selling certain products in the west and mid-west. The suit alleges among other things, that the defendants infringed on various patents belonging to the Company and illegally used Company trademarks. The former licensee denied the allegations. The distributor denied the allegations and filed counterclaims against the Company alleging inequitable conduct in obtaining and enforcing the patents and various anti-trust activities. The matter has just begun discovery but the Company is of the opinion that such counterclaims are totally without merit.

PART II - Other Information

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

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

Edgar Filing: HYDROMER INC - Form 10QSB

Item 6. Exhibits and Reports on Form 8-K:

- a) Exhibits - none
- b) Reports on Form 8-K - Two Form 8-K's were filed during the quarter ending December 31, 2004. One reported the Company's announcement of earnings for the first quarter ending September 30, 2004. The second Form 8-K reported the Company's announcement of receiving a research grant from the National Institute of Health.

-8-

SIGNATURES

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

HYDROMER, INC.

/s/ Robert Y. Lee

Robert Y. Lee
Chief Financial Officer

DATE: February 11, 2005

-9-