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HYDROMER INC  
Form 10QSB  
February 14, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

FORM 10-QSB

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

For the quarter ended December 31, 2006

Commission File Number 0-10683

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

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

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

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

Common Stock Without Par Value  
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(Title of class)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

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

Class -----	Outstanding at December 31, 2006 -----
Common	4,644,164

HYDROMER, INC.

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# 4 Submission of Motion to Vote of Security Holders	N/A
# 5 Other Information	N/A
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## EXHIBIT INDEX

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

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Part I - Financial Information  
Item # 1

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

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	December 31, 2006 UNAUDITED	June 30, 2006 AUDITED
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 262,622	\$ 434,865
Trade receivables less allowance for doubtful accounts of \$57,624 and \$44,479 as of December 31, 2006 and June 30, 2006, respectively	982,134	1,198,089
Inventory	909,727	988,086
Prepaid expenses	68,223	118,436
Deferred tax asset	8,976	8,976
Income tax refund receivable	54,548	91,436
Other	108,502	127,776
<b>Total Current Assets</b>	<b>2,394,732</b>	<b>2,967,664</b>
Property and equipment, net	3,305,055	3,377,473
Deferred tax asset, non-current	536,323	507,426
Intangible assets, net	905,409	849,262
Other, non-current	119,171	114,377
<b>Total Assets</b>	<b>\$ 7,260,690</b>	<b>\$ 7,816,202</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 623,816	\$ 635,010
Short-term borrowings	531,535	656,255
Accrued expenses	257,801	374,043
Current portion of deferred revenue	55,059	128,941
Current portion of mortgage payable	208,924	202,204
Income tax payable	947	1,100
<b>Total Current Liabilities</b>	<b>1,678,082</b>	<b>1,997,553</b>
Deferred tax liability	271,058	271,058
Long-term portion of deferred revenue	51,268	93,176
Long-term portion of mortgage payable	1,987,450	2,093,437
<b>Total Liabilities</b>	<b>3,987,858</b>	<b>4,455,224</b>
<b>Stockholders' Equity</b>		
Preferred stock - no par value, authorized 1,000,000 shares, no shares issued and outstanding	-	-
Common stock - no par value, authorized 15,000,000 shares;, 4,655,081 shares issued and 4,644,164 shares outstanding as of December 31, 2006 and June 30, 2006	3,639,315	3,639,315
Contributed capital	577,750	577,750
Accumulated deficit	(938,093)	(849,947)
Treasury stock, 10,917 common shares at cost	(6,140)	(6,140)
<b>Total Stockholders' Equity</b>	<b>3,272,832</b>	<b>3,360,978</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 7,260,690</b>	<b>\$ 7,816,202</b>

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HYDROMER, INC. and CONSOLIDATED SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended December 31,		Six Months Ended December 31,	
	2006 UNAUDITED	2005 UNAUDITED	2006 UNAUDITED	2005 UNAUDITED
Revenues				
Sale of products	\$ 1,316,130	\$ 1,161,379	\$ 2,524,330	\$ 2,216,12
Service revenues	361,422	245,481	729,902	490,76
Royalties and Contract Revenues	406,335	476,272	857,428	1,037,44
<b>Total Revenues</b>	<b>2,083,887</b>	<b>1,883,132</b>	<b>4,111,660</b>	<b>3,744,33</b>
Expenses				
Cost of Sales	748,658	803,384	1,596,243	1,620,73
Operating Expenses	1,188,063	1,242,355	2,544,942	2,624,08
Other Expenses	44,398	32,221	87,518	65,78
Provision for (Benefit from) Income Taxes	40,079	(66,241)	(28,897)	(192,53
<b>Total Expenses</b>	<b>2,021,198</b>	<b>2,011,719</b>	<b>4,199,806</b>	<b>4,118,07</b>
<b>Net Income (Loss)</b>	<b>\$ 62,689</b>	<b>\$ (128,587)</b>	<b>\$ (88,146)</b>	<b>\$ (373,73</b>
<b>Earnings (Loss) Per Common Share</b>	<b>\$ 0.01</b>	<b>\$ (0.03)</b>	<b>\$ (0.02)</b>	<b>\$ (0.0</b>
Weighted Average Number of Common Shares Outstanding	4,644,164	4,643,217	4,644,164	4,634,36

Except for the quarter ended December 31, 2006, the effects of the common stock equivalents on diluted earnings per share are not included as their effect would be anti-dilutive. For the quarter ended December 31, 2006, there was no effect of the common stock equivalents on diluted earnings per share.

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

Six Months Ended  
December 31,  
2006                      2005

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	UNAUDITED	UNAUDITED
-----		
Cash Flows From Operating Activities:		
Net Loss	\$ (88,146)	\$ (373,738)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities		
Depreciation and amortization	197,909	172,844
Deferred income taxes	(28,897)	(192,600)
Changes in Assets and Liabilities:		
Trade receivables	215,955	232,961
Inventory	78,359	(16,410)
Prepaid expenses	50,212	26,092
Other assets	14,479	(37,986)
Accounts payable and accrued liabilities	(127,433)	(176,618)
Deferred income	(115,790)	-
Income taxes payable	36,735	2,328
-----		
Net Cash Provided by (Used for) Operating Activities	233,383	(363,127)
-----		
Cash Flows From Investing Activities:		
Cash purchases of property and equipment	(44,728)	(88,943)
Cash payments on patents and trademarks	(136,910)	(84,866)
Cash purchases of short-term investments	-	(392,633)
-----		
Net Cash Used for Investing Activities	(181,638)	(566,442)
-----		
Cash Flows From Financing Activities:		
Net borrowings against Line of Credit	(124,720)	78,270
Repayment of long-term borrowings	(99,268)	(81,174)
Proceeds from the issuance of common stock	-	7,700
-----		
Net Cash (Used for) Provided by Financing Activities	(223,988)	4,796
-----		
Net Decrease in Cash and Cash Equivalents:	(172,243)	(924,773)
Cash and Cash Equivalents at Beginning of Period	434,865	1,376,656
-----		
Cash and Cash Equivalents at End of Period	\$ 262,622	\$ 451,883
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HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Notes to Consolidated Financial Statements

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

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comparable financial statements.

### Subsequent Events:

On January 24, 2007, the Company renewed its Line of Credit facility to a new maturity of January 31, 2008. The renewed credit facility, effective at \$737,500, will have the line reduced \$12,500 each month beginning February 28, 2007 and carries a rate of LIBOR + 3%.

### 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
2006				
Revenues	\$ 2,231,934	\$ 1,879,726		\$ 4,111,660
Expenses	(1,850,442)	(1,637,221)	\$ (741,040)	(4,228,703)
Pre-tax Income (Loss)	\$ 381,492	\$ 242,505	\$ (741,040)	\$ (117,043)
-----				
2005				
Revenues	\$ 2,203,554	\$ 1,540,782		\$ 3,744,336
Expenses	(1,812,623)	(1,771,260)	\$ (726,722)	(4,310,605)
Pre-tax Income (Loss)	\$ 390,931	\$ (230,478)	\$ (726,722)	\$ (566,269)

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

	2006	2005
Domestic	86%	84%
Foreign	14%	16%

Item #2

### 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, 2006 were \$2,083,887, up 10.7% from the \$1,883,132 for the same period last year. Revenues for the six months ended December 31, 2006 were \$4,111,660, or 9.8% higher than the \$3,744,336 in the corresponding period a year ago. Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

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Product sales and services were \$1,677,552 for the quarter ended December 31, 2006 as compared to \$1,406,860 for the same period the year before, an increase of \$270,692 or 19.2%. Private label orders of our T-Hexx Dry (periodic revenues) this quarter along with an increase in demand in our contract coating business accounted for the increase during the period. For the six months ended December 31, 2006, product sales and services were \$3,254,232, up 20.2% (or \$547,339) from the \$2,706,893 the year before. Increase demand in contract coating services, the private label T-Hexx Dry sales and an inventory call on Biosearch OEM medical devices were behind the revenue increase.

Royalty and Contract revenues include royalties received and the periodic recurring payments from license, option and other agreements for other than product and services. Included in Royalty and Contract revenues are revenues from support and supply agreements. For the quarter ended December 31, 2006, Royalty and Contract revenues were \$406,335, down \$69,937 or 14.7% from the \$476,272 the same period a year ago. Royalty and Contract revenues were \$857,428 and \$1,037,443 for the six month periods ended December 31, 2006 and 2005, respectively. Included in the September 2005 quarter was an additional \$175,000 in support fees for the May and June 2005 periods, a delayed recognition due to the timing of agreement finalization.

As of December 31, 2006, our open sales order book was approximately \$936,000, which does not include any [future] orders that would come up during the normal course of business and filled immediately or during the quarter. Although some of the sales orders can be cancelled prior to production, the Company is of the opinion that no substantial cancellations will occur.

Total Expenses for the quarter ended December 31, 2006 were \$2,021,198 as compared with \$2,011,719 the year before, a 0.5% increase. For the six months ended December 31, 2006, total Expenses were \$4,199,806 as compared with \$4,118,074 the same period the year before, up 2.0%.

The Company's Cost of Goods Sold was \$748,658 for the quarter ended December 31, 2006 as compared with \$803,384 the year prior, lower by 6.8%. The transfer of a medical device product line (to the customer's internal facilities) reduced manufacturing labor during the quarter, though we continue to supply the coating formulations. On a year-to-date basis, Cost of Goods Sold was \$1,596,243 for fiscal 2007 as compared with \$1,620,732 in fiscal 2006, \$24,490 or 1.5% lower.

Operating expenses were \$1,188,063 for the quarter ended December 31, 2006 as compared with \$1,242,355 the year before, down \$54,292 or 4.4%. For the six months ended December 31, 2006, Operating expenses were \$2,544,942 as compared with \$2,624,089 the year before, down \$79,147 or 3.0%. Included in the prior year's amount was \$165,000 (arising from the patent infringement litigation initiated against a former licensee and other parties), offset by approximately \$68,000 in higher Research and Development expenses (salaries and supplies) and \$16,000 in higher utilities costs.

Included in Other Expenses are Interest expense and Interest income. Interest expense for the six months ended December 31, 2006 and December 31, 2005 were \$96,492 and \$80,849, respectively, up from a higher utilization of the line-of-credit facility. Interest income for the six months ended December 31, 2006 and December 31, 2005 were \$8,945 and \$13,539, respectively, lower from a decrease in investable funds during the period.

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Net income of \$62,689 (\$0.01 per share) is reported for the quarter ended December 31, 2006 as compared to a net loss of \$128,587 (\$0.03 per share) the year before. For the six months ended December 31, 2006, a net loss of \$88,146 (\$0.02 per share) is reported as compared to a net loss of \$373,738 (\$0.08 per share) the year before.

Higher product and services revenues, from the continued growth in our contract coating services along with the periodic private label T-Hexx Dry sales and an inventory call of medical devices in conjunction with the production transfer to our customer, combined with a relatively flat expense level yielded the improvement to the bottom line results this fiscal year-to-date. Re-investment expenditures (research and development, patents) accounted for approximately 26.1% of the operating expenses. Our current projects include exciting new developments in the areas of thrombogenicity and cell mitosis, for use in the cardiovascular and neurovascular fields. These developments are patent pending.

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### Financial Condition

Working capital decreased \$253,461 during the six months ended December 31, 2006.

Net operating activities provided \$233,383 for the six month period ended December 31, 2006.

The net loss as adjusted for non-cash expenses, provided for \$80,866 in net cash. The collections of accounts receivables as offset by the earning of income on amounts previously collected, provided for an additional \$100,165 source of cash.

Investing activities used \$181,638 and financing activities used \$223,988 during the six months ended December 31, 2006.

During the six months, the Company expended \$44,728 on capital expenditures and \$136,910 into its patent estate. The Company also repaid \$124,720 to its revolving line of credit and paid down long-term borrowings by \$99,268.

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.

### Item # 3

#### 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



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and that there were no changes to our Company's internal control over financial reporting that have materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting during the period covered by the Company's quarterly report.

### PART II - Other Information

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

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

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

a) Exhibits - none

b) Reports on form 8-K - There were four Form 8-K's filed during the quarter ending December 31, 2006, each announcing the Company's new technological developments.

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#### SIGNATURES

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

HYDROMER, INC.

/s/ Robert Y. Lee

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Robert Y. Lee  
Chief Financial Officer

DATE: February 8, 2007