



Edgar Filing: HYDROMER INC - Form 10-Q

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of the issuer's common stock, as of the latest practical date:

Outstanding at September 30, 2012 : 4,772,318

## **FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, among other things, business strategy and expectations concerning industry conditions, market position, future operations, margins, profitability, liquidity and capital resources. Forward-looking statements generally can be identified by the use of terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate” or “believe” or similar expressions or the negatives thereof. These expectations are based on management’s assumptions and current beliefs based on currently available information. Although the Company believes that the expectations reflected in such statements are reasonable, it can give no assurance that such expectations will be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report on Form 10-Q and the Company does not have any obligation to update the forward looking statements. The Company’s operations are subject to a number of uncertainties, risks and other influences, many of which are outside its control, and any one of which, or a combination of which, could cause its actual results of operations to differ materially from the forward-looking statements.

**HYDROMER, INC.**

**INDEX TO FORM 10-Q**

**September 30, 2012**

**Page**

**Part I Financial Information**

|        |   |     |
|--------|---|-----|
| Item 1 | Condensed Consolidated Financial Statements   |     |
|        | <u>Condensed Consolidated Balance Sheets as of September 30, 2012 &amp; June 30, 2012</u>                     | 1   |
|        | <u>Condensed Consolidated Statements of Operations for the three months ended September 30, 2012 and 2011</u> | 2   |
|        | <u>Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2012 and 2011</u> | 3   |
|        | <u>Notes to Condensed Consolidated Financial Statements</u>   | 4   |
| Item 2 | Management's Discussion and Analysis of the Financial Condition and Results of Operation                      | 5   |
| Item 3 | Quantitative and Qualitative Disclosures about Market Risk  | N/A |
| Item 4 | Controls and Procedure  | 6   |

**Part II Other Information**

|         |   |     |
|---------|---|-----|
| Item 1  | Legal Proceedings   | N/A |
| Item 1A | Risk Factors  | N/A |
| Item 2  | Unregistered Sales of Equity Securities and Use of Proceeds | N/A |
| Item 3  | Defaults Upon Senior Securities                             | N/A |
| Item 4  | Mine Safety Disclosure                                      | N/A |
| Item 5  | Other Information   | N/A |
| Item 6  | <u>Exhibits</u>   | 6   |
|         | <u>Signatures</u>   | 7   |

**EXHIBIT INDEX**

**Exhibit No. Description**

|      |   |
|------|---|
| 31.1 | SEC Section 302 Certification – CEO certification   |
| 31.2 | SEC Section 302 Certification – CFO certification   |
| 32.1 | Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 |
| 32.2 | Certification of Robert Y. Lee, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350   |



**Part I – Financial Information****Item 1**HYDROMER, INC. AND CONSOLIDATED SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | <b>September<br/>30,<br/>2012</b> | <b>June 30,<br/>2012</b> |
|---|-----------------------------------|--------------------------|
|   | unaudited                         |                          |
| <b>ASSETS</b>   |                                   |                          |
| Current Assets:   |                                   |                          |
| Cash and cash equivalents   | \$408,109                         | \$280,878                |
| Trade Receivable less allowance for doubtful accounts of \$9,809 and \$5,622 as of September 30, 2012 and June 30, 2012, respectively                         | 751,358                           | 993,378                  |
| Inventory   | 366,715                           | 309,369                  |
| Prepaid Assets  | 180,920                           | 207,207                  |
| Other   | 9,763                             | 3,485                    |
| Total Current Assets  | 1,716,865                         | 1,794,317                |
| Property and Equipment, net   | 2,641,856                         | 2,682,221                |
| Deferred tax asset, non-current   | 1,295,937                         | 1,267,311                |
| Intangible assets, net  | 752,912                           | 761,519                  |
| Other   | 20,090                            | 20,358                   |
| Total Assets  | \$6,427,660                       | \$6,525,726              |
| <b>LIABILITIES &amp; EQUITY</b>   |                                   |                          |
| Current Liabilities   |                                   |                          |
| Accounts Payable  | \$357,584                         | \$385,113                |
| Accrued Expenses  | 376,781                           | 342,361                  |
| Current portion of capital lease  | 11,752                            | 16,499                   |
| Current portion of deferred revenue   | 134,172                           | 135,323                  |
| Current portion of mortgage payable   | 55,899                            | 55,899                   |
| Total Current Liabilities   | 936,188                           | 935,195                  |
| Deferred Tax Liability  | 251,758                           | 251,758                  |
| Long term portion of deferred revenue   | 138,297                           | 145,593                  |
| Long term portion of mortgage payable   | 2,642,298                         | 2,656,239                |
| Total Liabilities   | 3,968,541                         | 3,988,785                |
| Equity  |                                   |                          |
| Preferred Stock - no par value, authorized 1,000,00 shares; no shares issued and outstanding  |                                   |                          |
| Common Stock - no par value, authorized 15,000,00 shares; 4,783,235 shares issued and 4,772,318 shares outstanding as of September 30, 2012 and June 30, 2012 | 3,721,815                         | 3,721,815                |

Edgar Filing: HYDROMER INC - Form 10-Q

|  |             |             |
|--|-------------|-------------|
| Contributed capital                          | 633,150     | 633,150     |
| Accumulated deficit                          | (1,889,706) | (1,811,884) |
| Treasury stock, 10,917 common shares at cost | (6,140 )    | (6,140 )    |
| Total Stockholders' Equity                   | 2,459,119   | 2,536,941   |
| Total Liabilities and Stockholders' Equity   | \$6,427,660 | \$6,525,726 |

See accompanying notes

1

HYDROMER, INC. AND CONSOLIDATED  
SUBSIDIARY  
CONDENSED CONSOLIDATED  
STATEMENTS OF OPERATIONS  
(unaudited)

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>September 30,</b>      |             |
|  | <b>2012</b>               | <b>2011</b> |
| Revenues   |                           |             |
| Sales of Products                                    | \$ 596,082                | \$ 757,050  |
| Service Revenues                                     | 321,771                   | 350,399     |
| Royalties and contract revenues                      | 348,637                   | 341,148     |
| Total Revenues                                       | 1,266,490                 | 1,448,597   |
| Expenses   |                           |             |
| Cost of Sales  | 360,149                   | 416,012     |
| Operating Expenses                                   | 961,468                   | 1,105,325   |
| Other Expenses                                       | 50,321                    | 51,259      |
| Benefit from Income Taxes                            | (27,626)                  | (37,810)    |
| Total Expenses                                       | 1,344,312                 | 1,534,786   |
| Net Loss   | \$ (77,822)               | \$ (86,189) |
| Loss Per Common Share                                | \$ (0.02)                 | \$ (0.02)   |
| Weighted Average Number of Common Shares Outstanding | 4,772,318                 | 4,772,318   |

See accompanying notes.

There was no impact to earnings per share from dilutive securities as the resultant would have been anti-dilutive.





HYDROMER, INC. AND CONSOLIDATED  
SUBSIDIARY  
CONDENSED CONSOLIDATED  
STATEMENTS OF CASH FLOWS  
(unaudited)

|                                   | <b>Three Months Ended</b> |             |
|-----------------------------------|---------------------------|-------------|
|                                   | <b>September 30,</b>      |             |
|                                   | <b>2012</b>               | <b>2011</b> |
| Cash Flows from                   |                           |             |
| Operating                         |                           |             |
| Activities:                       |                           |             |
| Net                               |                           |             |
| Loss                              | \$ (77,822)               | \$ (86,189) |
| Adjustments to reconcile net loss |                           |             |
| to net cash provided by (used in) |                           |             |
| operating activities              |                           |             |
| Depreciation and                  |                           |             |
| Amortization                      | 101,536                   | 111,978     |
| Deferred income                   |                           |             |
| taxes                             | (28,626)                  | (37,810)    |
| Changes in Assets                 |                           |             |
| and Liabilities                   |                           |             |
| Trade                             |                           |             |
| Receivable                        | 242,020                   | (40,917)    |
| Inventory                         | (57,346)                  | 59,797      |
| Prepaid                           |                           |             |
| expenses                          | 15,213                    | 14,243      |
| Other                             |                           |             |
| assets                            | (6,010)                   | 2,344       |
| Accounts                          |                           |             |
| payable and                       |                           |             |
| accrued                           | 4,882                     | 53,625      |
| liabilities                       |                           |             |
| Deferred                          |                           |             |
| income                            | (8,447)                   | (90,633)    |
| Net Cash                          |                           |             |
| Provided                          |                           |             |
| by (Used                          |                           |             |
| in)                               | 185,400                   | (13,562)    |
| Operating                         |                           |             |
| Activities                        |                           |             |

Cash Flows from  
Investing

## Activities:

|  |          |          |
|--|----------|----------|
| Cash purchases of property and equipment | (15,024) | (22,273) |
| Cash payments on patents and trademarks  | (29,204) | (13,061) |
| Net Cash Used in Investing Activities    | (44,228) | (35,334) |

## Cash Flows from Financing

## Activities:

|                                       |          |          |
|---------------------------------------|----------|----------|
| Repayment of long-term borrowings     | (13,941) | (12,997) |
| Net Cash Used in Financing Activities | (13,941) | (12,997) |

## Net Increase

|   |         |          |
|---|---------|----------|
| (Decrease) in Cash and Cash equivalents | 127,231 | (61,893) |
|---|---------|----------|

## Cash and Cash

|  |         |            |
|--|---------|------------|
| equivalents, Beginning of Period         | 280,878 | 502,597    |
| Cash and Cash equivalents, End of Period | 408,109 | \$ 440,704 |

See accompanying notes.

## HYDROMER, INC. AND CONSOLIDATED SUBSIDIARY

## Notes to Condensed Consolidated Financial Statements

## Basis of Presentation:

In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments (consisting of only normal adjustments) necessary for a fair presentation of the results for the interim periods. These condensed financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. The condensed financial statements should be read in conjunction with the consolidated financial statements and other information contained in our Annual Report of Form 10-K for the year ended June 30, 2012. The condensed balance sheet at June 30, 2012 was derived from audit financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

## Segment Reporting:

The Company operates two primary business segments. The Company evaluates the segments by revenues, total expenses and earnings before taxes. Corporate Overhead (primarily the salaries and benefits of senior management, support services (Accounting, Legal, Human Resources and Purchasing) and other shared services (building maintenance and warehousing)) are excluded from the business segments as to not distort the contribution of each segment. These segments are the lowest levels for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

The results for the three months ended September 30, by segment are:

|                       | <b>Polymer<br/>Research</b> | <b>Medical<br/>Products</b> | <b>Corporate<br/>Overhead</b> | <b>Total</b>    |
|-----------------------|-----------------------------|-----------------------------|-------------------------------|-----------------|
| <b>2012</b>           |                             |                             |                               |                 |
| Revenues              | \$ 944,483                  | \$ 322,007                  |                               | \$<br>1,266,490 |
| Expenses              | (777,871)                   | (221,024)                   | \$ (373,043)                  | (1,371,938)     |
| Pre-tax Income (Loss) | \$ 166,612                  | \$ 100,983                  | \$ (373,043)                  | \$<br>(105,448) |
| <b>2011</b>           |                             |                             |                               |                 |
| Revenues              | \$ 1,092,324                | \$ 356,273                  |                               | \$<br>1,448,597 |
| Expenses              | (885,546)                   | (286,360)                   | \$ (400,690)                  | (1,572,596)     |
| Pre-tax Income (Loss) | \$ 206,778                  | \$ 69,913                   | \$ (400,690)                  | \$<br>(123,999) |

Geographic revenues were as follows for the three months ended September 30

|          |      |      |
|----------|------|------|
|          | 2012 | 2011 |
| Domestic | 68%  | 66%  |
| Foreign  | 32%  | 34%  |

Inventory:

|                     |                           |                      |
|---------------------|---------------------------|----------------------|
| <b>Inventory</b>    |                           |                      |
| <b>consists of:</b> | <b>September 30, 2012</b> | <b>June 30, 2012</b> |
| Finished goods      | 127,137                   | \$ 132,673           |
| Work in process     | 709                       | 6,156                |
| Raw materials       | 238,869                   | 170,540              |
|                     | \$ 366,715                | \$ 309,369           |

Subsequent Events:

As reported in the June 30, 2012 10-K, the Company was granted a waiver on mortgage covenants not met as of June 30, 2012. The next covenant measurement date is June 30, 2013. Although a waiver was granted by the lender, there is no certainty that future waivers would be granted.

**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 September 30, 2012 were \$1,266,490, lower by \$182,107 or 12.6% than the \$1,448,597 for the same period the previous year. Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales were \$596,082 for the quarter ended September 30, 2012 as compared to \$757,050 for the same period the year before, lower by \$160,968 (21.3%) primarily due to the timing of periodic (not monthly) sales. Our recently introduced Dragonhyde<sup>®</sup> DUST dissolvable hoof bath powder has been met with extreme interest at the World Dairy Expo and EuroTier (agricultural tradeshow) in Madison, WI in October 2012 and in Germany in November 2012, respectively. We expect revenue increases over the next few months from the staggered regional global roll out.

Services revenues, comprising of contract coating services, for the three months ended September 30, 2012 was \$321,771 or \$28,628 (8.2%) lower than the \$350,399 the corresponding period the year before. While we expect a gradual decrease in Contract Services revenues as customers convert over to become medical chemical polymer purchasers (for coating applications themselves or via a third party), we have gained new customers to partially replace/offset the conversion of coating services revenues to product sales. These "converted" customers can also allow for additional revenues from Supply and Support Agreements (see Royalty and Contract revenues following) and/or purchase of our coating equipment (included as Product sales).

Royalty and Contract revenues include royalties received and the periodic recurring payments from license, stand still and other agreements other than for product and services. Included in Royalty and Contract revenues are revenues from support and supply agreements which avails our customers to continued technical support and/or guaranteed access to our proprietary coatings and may include the transfer of technical know-how (coatings procedures). Some of the royalties and support fees are based on the net sales of the final item (to which the Hydromer technology is applied to) and are subject to the reporting of our customers. For the quarter ended September 30, 2012, Royalty and Contract revenues were \$348,637, compared to \$341,148 the same period a year ago.

Total Expenses for the quarter ended September 30, 2012 were \$1,344,312 as compared with \$1,534,786 the year before, a reduction of \$190,474 or 12.4%.

For the quarter ended September 30, 2012, the Company's Cost of Goods Sold was \$360,149 as compared with \$416,012 the year prior, lower by \$55,863 or 13.4%. Lower product sales during the current quarter, including that of lower margin products, accounted for the decrease in Cost of Goods Sold.

## Edgar Filing: HYDROMER INC - Form 10-Q

Operating expenses were \$961,468 for the quarter ended September 30, 2012 as compared with \$1,105,325 the year before, lower by \$143,857 or 13.0%, the savings primarily coming from a lower staffing level, including in part due to the a re-strategization of marketing and sales efforts, and lower marketing expenses from less travel and tradeshow exhibitions this year.

Interest expense, interest income and other income are included in Other Expenses. Interest expense (primarily mortgage interest) for the three months ended September 30, 2012 and September 30, 2011 were \$49,414 and \$50,652, respectively.

A net loss of \$77,822 (\$0.02 per share) is reported for the quarter ended September 30, 2012 as compared to a net loss of \$86,189 (\$0.02 per share) the year before.

Though we saw a temporary revenue drop of \$182,107 this quarter when compared with the corresponding quarter a year ago (primarily from higher non-monthly revenues in the prior year's period), we reduced operating expenses by \$143,857 between the quarters, much of that expense reduction being permanent (not based on timing), and thus will be continued in subsequent periods. We expect continued improvements to revenues (from new products and agreements and from acquiring additional market share on existing products) with expenses held stable to result in a return to profitability.

Financial Condition:

The working capital position as of September 30, 2012 was \$780,677 as compared with \$859,122 as of June 30, 2012 or a decrease of \$78,445 during the three month period.

For the three months ended September 30, 2012, operating activities provided \$185,400 in net cash.

The net collections of trade receivables (\$242,020) less the increase in inventories (\$57,346) were the primary attributors to the cash provided by operating activities. The decrease to working capital for the quarter was primarily due to the net of the collections of trade receivables and cash used during the quarter.

Investing activities used \$44,228 and financing activities used \$13,941 during the three months ended September 30, 2012.

Investing activities for the three months ended September 30, 2012 included \$15,024 for capital expenditures and \$29,204 towards the Company's patent estate. Reported under Financing activities was the repayment of the principal portion of the mortgage.

Depreciation and amortization of property, plant and equipment and of the intangibles less the income tax benefit (deferred income tax) (both non-cash items) aggregated \$73,910 leading to a EBITDA for the quarter ended September 30, 2012 of \$45,502. With a reduced operating expense base plus projected revenue increases, we expect to overcome the two significant 2009 events (the significant supply & support agreement cancellation and sales of medical device product lines) to result in a return to profitability.

#### **Item 4**

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 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 a mortgage through a bank.



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

**Item 6**

Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 31.1        | 13a-14(a) Certification of Chief Executive Officer and President                    |
| 31.2        | 13a-14(a) Certification of Vice President of Finance and Chief Financial Officer    |
| 32.1        | Section 1350 Certification of Chief Executive Officer and Chairman, President       |
| 32.2        | Section 1350 Certification of Chief Financial Officer and Vice President of Finance |

Pursuant to the Securities and Exchange November 14, 2012 Order (Release No. 68224), the registrant has been allowed an extended filing due date of this Form 10-Q until November 21, 2012.

Hurricane Sandy and its aftermath impacted the registrant, its bank and independent accountants from timely completion of its required tasks to allow for the registrant to complete its June 30, 2012 Form 10-K (waiver of loan covenants) earlier, as well as its September 30, 2012 Form 10-Q. Accordingly, in good faith, the registrant requires the extended due date under the SEC Order.

**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.

Date: November 26, 2012 **Hydromer, Inc.**

By: /s/ Robert Y. Lee, VP

Robert Y. Lee

Principal Accounting Officer & Chief Financial Officer