

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

HYDRON TECHNOLOGIES INC  
Form 10QSB  
August 13, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

/X/ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934

For the Quarterly Period Ended: June 30, 2007

Or

/ / Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934

Commission File Number: 0-6333

HYDRON TECHNOLOGIES, INC.

-----  
(Exact name of Registrant as specified in its charter)

New York

-----  
(State or other jurisdiction of  
Incorporation or organization)

13-1574215

-----  
(I.R.S. Employer  
Identification Number)

4400 34th Street N, Suite F  
Saint Petersburg, FL 33714

-----  
(Address of Principal Executive Offices)

(727) 342-5050

-----  
(Registrant's telephone number)

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.

Number of shares of common stock outstanding as of August 1, 2007: 17,074,961

Transitional Small Business Disclosure Format (Check one): Yes ☐ No ☒.

HYDRON TECHNOLOGIES, INC.  
QUARTERLY PERIOD ENDED, JUNE 30, 2007  
INDEX TO FORM 10-QSB

TABLE OF CONTENTS

PAGE

Part I. Financial Information  
-----

# Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Item 1.	Financial Statements (Unaudited)	
	Consolidated Balance Sheet at June 30, 2007 (unaudited) .....	3
	Consolidated Statements of Operations for the Three and six months ended June 30, 2007 and 2006 (unaudited) .....	4
	Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006 (unaudited) .....	5
	Notes to Consolidated Financial Statements (unaudited) .....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	18
Item 3.	Controls and Procedures .....	25
Part II. Other Information		
-----		
Item 1.	Legal Proceedings .....	26
Item 2.	Changes in Securities and Use of Proceeds .....	26
Item 3.	Defaults Upon Senior Securities .....	26
Item 4.	Submission of Matters to a Vote of Security Holders .....	27
Item 5.	Other Events .....	27
Item 6.	Exhibits .....	28
	Signatures .....	31

2

## HYDRON TECHNOLOGIES, INC. CONSOLIDATED BALANCE SHEET JUNE 30, 2007 (UNAUDITED)

ASSETS	
Current Assets	
Cash and cash equivalents .....	\$ 4,999
Trade accounts receivable, net .....	86,153
Inventories .....	252,784
Prepaid expenses and other current assets .....	12,404
	-----
Total current assets .....	356,340
Property and equipment, net .....	119,522
Deferred product costs, net .....	116,592
Intangible assets, net .....	168,937
Restricted cash .....	76,641
Deposits .....	29,652
	-----
Total Assets .....	\$ 867,684

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities	
Accounts payable .....	\$ 193,526
Loans payable, net .....	192,029
Royalties payable .....	16,803
Deferred revenues .....	101,165
Accrued liabilities .....	296,055
Current portion of obligation under capital leases .....	19,156
	-----
Total current liabilities .....	818,734
Long term liabilities	
Obligation under capital lease payable .....	18,797
Minority interest in consolidated partnership .....	212,620
Commitments and contingencies	
Shareholders' deficit	
Preferred stock - \$.01 par value 5,000,000 shares authorized; no shares issued or outstanding .....	-
Common stock - \$.01 par value 30,000,000 shares authorized; 16,824,961 shares, issued and outstanding .....	168,249
Additional paid-in capital .....	21,790,506
Accumulated deficit .....	(22,133,406)
Treasury stock, at cost 10,000 shares .....	(7,816)
	-----
Total Shareholders' deficit .....	(182,467)
	-----
Total liabilities and shareholders' deficit .....	\$ 867,684
	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

3

HYDRON TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	THREE MONTHS ENDED JUNE 30, 2007	2006	SIX MONTHS ENDED 2007
	-----	-----	-----
Net sales .....	\$ 336,134	\$ 346,863	\$ 653,267
Cost of sales .....	151,980	91,094	286,261
	-----	-----	-----
Gross profit .....	184,154	255,769	367,006
Expenses			
Royalty expense .....	-	1,543	-
Research and development .....	-	5,957	3,871
Selling, general & administration .....	367,518	344,285	680,350
Depreciation & amortization .....	23,741	25,410	47,200
	-----	-----	-----
Total expenses .....	391,259	377,195	731,421
	-----	-----	-----

# Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Operating loss .....	(207,105)	(121,426)	(364,415)
Interest (expense), net of interest income of \$611 and \$620 .....	(16,104)	(21,528)	(26,264)
Loss before income taxes and minority interest	(223,209)	(142,954)	(390,679)
Income taxes expense .....	-	-	-
Minority interest in net loss of subsidiary ....	4,541	5,139	9,093
Net loss .....	\$ (218,668)	\$ (137,815)	\$ (381,586)
Basic and diluted loss per share			
Net loss per common share .....	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average shares outstanding (basic and diluted) .....	16,318,597	12,201,936	15,418,810

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

4

## HYDRON TECHNOLOGIES, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2007	2006
OPERATING ACTIVITIES		
Net loss .....	\$ (381,586)	\$ (323,539)
Adjustments to reconcile net loss to net cash used in operating activities		
Minority interest .....	(9,093)	(14,188)
Depreciation and amortization .....	47,200	50,820
Compensation expense from stock option awards ..	13,949	12,420
Warrants issued from loans payable .....	64,443	-
Stock issued in settlement .....	10,000	-
Deferred financing costs .....	(55,931)	7,134
Stock issued for interest expense .....	29,909	34,776
Change in operating assets and liabilities		
Restricted cash .....	13,514	14,084
Trade accounts receivable .....	(38,477)	84,854
Inventories .....	16,469	29,088
Prepaid expenses and other current assets .....	(8,105)	26,470
Deposits .....	(400)	(5,574)
Accounts payable .....	(195,701)	(25,808)
Royalties payable .....	(11,305)	(2,500)
Deferred revenues .....	(28,867)	53,803
Accrued interest .....	(14,898)	3,024
Accrued liabilities .....	19,922	10,977
Net cash used in operating activities .....	(528,957)	(44,159)
INVESTING ACTIVITIES		

# Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Purchase of fixed assets .....	(2,150)	-
	-----	-----
Net cash used in investing activities .....	(2,150)	-
FINANCING ACTIVITIES		
Stock offering, proceeds .....	380,000	-
Loan payable, proceeds .....	100,000	-
Payments on capital leases .....	(12,622)	(10,912)
Proceeds from exercise of stock options .....	61,788	44,535
	-----	-----
Net cash provided by financing activities .....	529,166	33,623
Net (decrease) in cash and cash equivalents .....	(1,941)	(10,536)
Cash and cash equivalents at beginning of period .....	6,940	36,281
	-----	-----
Cash and cash equivalents at end of period .....	\$ 4,999	\$ 25,745
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Warrants issued in connection with private offering	\$ 380,000	-
Warrants issued in connection with loans payables ..	64,443	-

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

5

## HYDRON TECHNOLOGIES, INC NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2007 AND 2006

### NOTE A - NATURE OF OPERATIONS

#### Organization of Business

Hydron(R) Technologies, Inc. (the "Company") manufactures and sells consumer and professional products, primarily in the personal care/cosmetics field. The Company holds the exclusive license from Valera Pharmaceuticals (VLRX) recently purchased by Indevus Pharmaceuticals Inc. (IDEV), the assignee of GP Strategies Corporation (formerly National Patent Development Corporation) ("GPS") to a Hydron(R) polymer-based drug delivery system for topically applied, nonprescription pharmaceutical products, which the Company uses to develop proprietary products or to license to third parties. The Company owns U.S. and international patents on a method to suspend the Hydron polymer in a stable emulsion for use in personal care/cosmetic products.

The Company also owns a patent entitled "Compositions and Methods for Delivery of Skin Cosmeceuticals." This patent covers the Company's unique self-adjusting pH emulsion system.

The Company also owns U.S. and international patents on a method to infuse oxygen into the skin and tissue topically without using the blood stream. The oxygenation technology was submitted to the Food & Drug Administration to obtain the necessary approvals for medical applications; however, at this time, the necessary steps for final approval has not been determined and this project is currently on hold.

#### Basis of Presentation and Going Concern

The unaudited consolidated financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation. These financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2006, which is included in the Company's Form 10-KSB for the year ended December 31, 2006. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

The accompanying consolidated financial statements were prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of operations.

6

The Company's independent accountants issued a "going concern" opinion on the Company's December 31, 2006 financial statements, since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

On July 1, 2005, the Company acquired Clinical Results, Inc. (CRI), a St. Petersburg, Florida-based company. CRI was a privately held product development laboratory and contract manufacturer of cosmeceutical and other personal care products. CRI's clients ranged from mass market retailers to marketers of high end brands, and certain health food store brands.

Management believes that Hydron Technologies will benefit from lower manufacturing costs, and be better positioned to build its catalog and internet business, as well as expand the sale of its skin care treatments beyond its historical direct response TV and catalog operations, by utilizing CRI's broker network. The Company's ultimate ability to attain profitable operations is dependent upon obtaining additional financing or achieving a level of sales adequate to support its cost structure.

Accordingly, there are no assurances that the Company will be successful in achieving the above objectives, or that such objectives, if realized, will enable the Company to obtain profitable operations or continue as a going concern.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Principles of Consolidation

The consolidated financial statements include the accounts of Hydron Technologies, Inc. and its wholly-owned subsidiary CRI purchased as of July 1, 2005, and its majority owned limited liability limited partnership, Hydron

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Royalty Partners, LLLP. All significant inter-company transactions have been eliminated.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The credit risk associated with cash equivalents is considered low due to the credit quality of the issuers of the financial instruments.

The cash and cash equivalent balances at June 30, 2007 are covered by the Federal Deposit Insurance Commission.

### Restricted cash

At June 30, 2007, the Company had restricted cash of \$76,641, all of which were covered by the Federal Deposit Insurance Commission, which represents funds from a consolidated entity, that are not available for use in the Company's normal operations.

7

### Concentration of Credit Risk

Trade accounts receivable are due primarily from contract manufacturing customers and are usually paid to the Company within 30 days after receipt of goods. The Company performs ongoing evaluations of its significant customers and does not require collateral, although in some cases it requires deposits or advances.

### Inventories

Inventories are valued at the lower of cost or market, on a first-in, first-out (FIFO) basis and include finished goods, components and raw materials.

### Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangibles held and used for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating the fair value and future benefits of its intangible assets, management performs an analysis of the anticipated undiscounted future net cash flows of the individual assets (or asset groups) over the remaining depreciation/amortization period. The Company recognizes an impairment loss if the carrying value of the asset exceeds the expected future cash flows. During the period ended June 30, 2007, management determined there was no impairment of long-lived assets.

### Property and Equipment

Property and equipment, consisting primarily of furniture and equipment, is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from four to six years.

### Deferred Product Costs

Deferred product costs consist primarily of costs incurred for the purchase and development of patents and product rights. The deferred product costs are being amortized over their estimated useful lives of five to seventeen years using the straight-line method.

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

### Common Stock, Common Stock Options

Prior to January 1, 2006, the Company accounted for employee stock-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with APB 25 and SFAS 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No.148 "Accounting for Stock-Based Compensation--Transition and Disclosures." Under the intrinsic value method, the recorded stock-based compensation expense was related to the amortization of the intrinsic value of stock options issued and other equity-based awards issued by the Company. Options granted with exercise prices equal to the grant date fair value of the Company's stock have no intrinsic value and therefore no expense was recorded for these options under APB 25. Other equity-based awards for which stock-based compensation expense was recorded were generally grants of restricted stock awards which were measured at fair value on the date of grant based on the number of shares granted and the quoted price of the Company's common stock. Such value was recognized as an expense over the corresponding service period.

8

Effective January 1, 2006 the Company adopted SFAS 123R using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. Under SFAS 123R, stock-based awards granted prior to its adoption will be expensed over the remaining portion of their vesting period. These awards will be expensed under the accelerated amortization method using the same fair value measurements which were used in calculating pro forma stock-based compensation expense under SFAS 123. For stock-based awards granted on or after January 1, 2006, the Company will amortize stock-based compensation expense on a straight-line basis over the requisite service period, which is generally a four year vesting period. SFAS 123R requires that the deferred stock-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital.

For the six month period ended June 30, 2007, the Company recorded stock-based compensation expense of \$13,949. For the six month period ended June 30, 2006, the Company recognized \$12,420 of stock-based compensation expense under the intrinsic value method.

### Earnings (loss) Per Share

The financial statements are presented in accordance with Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings Per Share". Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution from the exercise or conversion of securities into common stock.

### Revenue Recognition

The Company recognizes revenue when:

- o Persuasive evidence of an arrangement exists,
- o Shipment has occurred,
- o Price is fixed or determinable, and
- o Collectability is reasonably assured.

Subject to these criterion, the Company recognizes revenue at the time of shipment of the relevant merchandise. The Company offers its individual consumer customers a thirty-day warranty and estimates an allowance for sales

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

returns based on historical experience with product returns. For the Company's formulation and contract manufacturing business, revenue is recognized when the work is complete, the client approves the formula by written correspondence, and the product is shipped.

### Shipping and Handling Fees

The Company follows the provisions of Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." Any amounts billed to third-party customers for shipping and handling is included as a component of revenue. Shipping and handling costs incurred are included as a component of cost of sales.

9

### Cost of Sales

Prior to the acquisition of CRI, products were manufactured through third parties under contract and cost of sales included the cost of ingredients, packaging material, assembly and processing costs. Currently, with manufacturing capability, most products are manufactured in house. Inbound freight, internal transfers, and component handling costs are charged to cost of sales. Costs associated with shipping product to customers is included in cost of sales. The cost of warehousing finished product that is available for sale is included in selling, general and administrative expenses.

### Research and Development Costs

Research and development expenditures, consist of costs incurred in performing research and development activities, and are expensed as incurred. For the six month periods ended June 30, 2007 and 2006, expenses charged to Research and Development were \$3,871 and \$6,967, respectively.

### Advertising

Advertising costs are expensed as incurred and are included in "Selling, general and administrative expenses." Advertising expenses amounted to approximately \$2,364 and \$53,017 for the six month periods ended June 30, 2007 and 2006, respectively.

### NOTE C - INVENTORIES

Inventories consisted of the following at June 30, 2007:

Finished Goods .....	\$ 37,800
Raw materials and components .....	513,132
	-----
	550,932
Less : inventory valuation allowance .....	(298,148)
	-----
Inventories, net .....	\$ 252,784
	=====

### NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2007:

Accounts Receivable .....	\$ 116,153
Less : Allowance for Doubtful accounts .....	(30,000)
	-----
Accounts Receivable, Net .....	\$ 86,153

=====

NOTE E - SHARE BASED COMPENSATION

The Company recognized \$13,949 in share based compensation expense for the six month period ended June 30, 2007. Options to purchase 300,000 shares were granted to employees during the six months ended June 30, 2007. The Company recognized \$12,584 in share based compensation expense for the three month period ended June 30, 2007. Options to purchase 290,000 shares were granted to employees during the three months ended June 30, 2007.

10

For the stock-based awards granted on or after January 1, 2006, the Company is amortizing stock-based compensation expense on a straight-line basis over the requisite service period, which is generally a one year vesting period. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the period ended June 30, 2007:

Risk-free interest rate .....	5.3%
Expected life .....	5 years
Expected volatility .....	301%
Expected dividend yield .....	0%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. As the Company's stock options have characteristics significantly different than those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in Management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

NOTE F - LOANS PAYABLE

On June 14, 2005, the Company borrowed an aggregate of One Hundred Fifty Thousand Dollars (\$150,000) (collectively, the "Loans") from three individual lenders (collectively, the "Lenders"), including individuals who are (i) the Chairman of the Board and Interim President, and (ii) a second director of the Company.

In connection with the Loans, the Company issued to each of the Lenders a promissory note in the principal amount of Fifty Thousand Dollars (\$50,000) (individually, a "Note" and collectively, the "Notes") providing for (a) quarterly payments of interest at ten percent (10%) per annum and (b) repayment of principal in a balloon payment on the second anniversary of the date of the Notes. Under the terms of the Notes, the Company may elect to pay quarterly interest to the holders of the Notes in shares of common stock, \$.01 par value, of the Company (the "Common Stock"), in an amount calculated by dividing the amount of interest due and payable by ten cents (\$.10). The Notes also provide that, in the event of a default by the Company under the Notes, the holders may elect to receive payment of principal and accrued and unpaid interest in shares of Common Stock, in an amount calculated by dividing the amount of principal and accrued and unpaid interest payable by the "Average Market Price" for a share of Common Stock. Under the terms of the Notes, "Average Market Price" means the average closing sale price for a share of Common Stock measured over the last ten trading days of the month preceding the interest payment date or, if no trading in the Common Stock has occurred during such period, the average closing sale price on the last date on which a share of Common Stock was sold in

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

over-the-counter trading in the Common Stock. In the event that no shares of Common Stock have traded in the over-the-counter market for a period of six months or more, the Average Market Price shall be the fair market price for a share of Common Stock as determined in good faith by the Board of Directors of the Company. In October 2005, the Company elected to pay the accrued interest due on the Notes of \$11,040 in stock of the Company and issued 44,000 shares at \$.25 to the Note holders. In January 2006, the Company elected to pay the accrued interest due on the Notes of \$13,230 in stock of the Company and issued 37,800 shares at \$.35 to the Note holders. In March 2006, the Company elected to

11

pay the accrued interest due on the notes of \$21,546 in stock of the Company and issued 37,800 shares at \$.57 to the Note holders. In July 2006, the Company elected to pay the accrued interest due on the notes of \$16,254 in stock of the Company and issued 37,800 shares at \$.43 to the Note holders. In January 2007, the Company elected to pay the accrued interest due on the notes of \$15,120 in stock of the Company and issued 37,800 shares at \$.17 to the Note holders, and 37,800 shares at \$.23 to the Note holders. In May 2007, the Company elected to pay the accrued interest due on the notes and issued 37,800 shares at \$.17 to the Note holders. In June 2007, the Company elected to pay the accrued interest due on the notes and issued 31,260 shares at \$.22 to the Note holders.

In addition, in connection with the Loans, each Lender received a Common Stock Purchase Warrant (collectively, the "Warrants") entitling the holder to purchase One Hundred Thousand (100,000) shares of Common Stock at an exercise price of ten cents (\$.10) per share for a five-year period. The warrants were valued using the Black Scholes model at \$24,000, which is being amortized as interest expense over the life of the notes.

The Notes and the Warrants each provide that in the event that the Company shall grant "piggy back" registration rights to any other party to cause the Company's Common Stock or any security exercisable or exchangeable for, or convertible into, shares of Common Stock to be included in a registration statement filed by the Company for sale by any selling shareholder or by the Company, the Company will grant the holders of the Notes and Warrants similar registration rights.

On May 20, 2007, the Company agreed to extend and amend certain of the terms of the loans (collectively, the "Loan Extension") made to the Company on June 14, 2005 (collectively, the "Original Loans") by Mr. Saul, Richard Banakus, the Chairman and a director of the Company, and Regis Synan (individually, a "Lender" and collectively, the "Lenders") in the amounts of \$50,000, \$50,000 and \$50,000, respectively. Under the terms of the Loan Extension, the Lenders agreed to extend the maturity date of the Original Loans from June 14, 2007 to June 14, 2008. In consideration for the Loan Extension, the Company agreed to grant each Lender a common stock warrant (the "Loan Extension Warrants") exercisable for Seventy Five Thousand (75,000) shares of the Common Stock for a five-year period at an exercise price of \$0.20 per share of Common Stock. The warrants were valued using the Black Scholes model at \$43,400, which is being amortized as interest expense over the life of the notes.

In addition, the Lenders agreed to continue to allow the Company to pay quarterly interest in cash or in shares of Common Stock. In the case of interest paid in shares of Common Stock, the Company agreed to modify the valuation for such shares to \$0.20 per share of Common Stock. The Board of Directors of the Company approved the Loan Extension and the Loan Extension Warrants unanimously with Messrs. Saul and Banakus abstaining from the vote, and agreed to reserve sufficient shares of Common Stock in the event of the exercise of the Loan Extension Warrant. In June 2007, the Company elected to pay the accrued interest due on the notes and issued 2,970 shares at \$.22 to the Note holders.

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

On May 22, 2007, Ronald J. Saul, a director of Hydron Technologies, Inc., lent the Company One Hundred Thousand Dollars (\$100,000) (the "Loan"). The term of the Loan is six months and bears interest at the rate of ten percent (10%). Interest on the Loan is payable monthly and may be paid in cash, or at the option of the Company, in shares of common stock of the Company ("Common Stock"), valued for this purpose at the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common

12

Stock traded. In addition, in consideration of the Loan, the Company has granted Mr. Saul a common stock warrant (the "Loan Warrant") exercisable for One Hundred Thousand (100,000 shares of Common Stock for a five-year period at an exercise price of \$0.2115 per share of Common Stock. The warrants were valued using the Black Scholes model at \$21,040, which is being amortized as interest expense over the life of the notes. In June 2007, the Company elected to pay the accrued interest due on the note of \$833 in stock of the Company and issued 3,771 shares at \$.221 to the Note holder. At June 30, 2007, the Company had accrued \$222 of interest on the note due to the Note holder.

The Board of Directors of the Company approved the Loan and the Loan Warrant unanimously with Mr. Saul abstaining from the vote, and agreed to reserve sufficient shares of Common Stock in the event of the exercise of the Loan Warrant. The purpose of the Loan was to provide the Company with additional cash to remain current on its operating expenses, help reestablish credit terms with the Company's vendors, reduce outstanding payables and purchase additional raw materials on more advantageous terms.

Loans Payable consisted of the following at June 30, 2007:

	2007
	-----
Loans Payable .....	\$ 250,000
Accrued interest .....	222
Less: Deferred financing costs .....	(58,193)
	-----
	\$ 192,029
	=====

### NOTE G - ACCRUED LIABILITIES

Accrued liabilities represent expenses that apply to the reported period and have not been billed by the provider or paid by the Company.

Accrued liabilities consisted of the following at June 30, 2007:

Dividends payable .....	\$ 83,163
Director fees payable .....	119,070
Professional fees .....	32,578
Other .....	61,244
	-----
	\$ 296,055
	=====

### NOTE H - EQUITY

On February 1, 2007, the Company, commenced an offering ("Offering") of up to 3,300,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock having a total gross purchase price of \$330,000. On February 1,

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

2007 the Company closed on the sale of 2,100,000 Units resulting in gross proceeds to the Company of \$210,000. On February 5, 2007, the Company closed on the sale of an additional 1,100,000 Units resulting in gross proceeds to the Company of \$110,000. On February 8, 2007 the Company closed on the sale of an additional 100,000 Units resulting in gross proceeds to the Company of \$10,000.

13

On March 21, 2007 the Company closed on the sale of an additional 500,000 Units resulting in gross proceeds to the Company of \$50,000.

On July 18, 2007, Hydron Technologies, Inc., sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007 (the "Subscription Agreement").

Under the terms of the Offering, the Company has agreed that in the event that the Company shall grant "piggy back" registration rights to any other party to cause the Company's Common Stock or any security exercisable or exchangeable for, or convertible into, shares of Common Stock to be included in a registration statement filed by the Company for sale by any selling shareholder or by the Company, the Company will grant the holders of the Shares and Warrants similar registration rights.

Each purchaser of Units is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act"). The Company issued the Shares and the Warrants without registration under the Securities Act in reliance on the exemptions from registration provided by Rule 506 of Regulation D and Section 4(2) of the Securities Act, as well as preemption from applicable state registration requirements under Section 18(a) of the Securities Act.

The Company used the proceeds of the Offering to pay current obligations of the Company.

### NOTE I - RELATED PARTY

During the six month period ended June 30, 2007, the Company commenced and closed on an Offering (see Note H). Among the individuals purchasing Units in the Offering are (i) Richard Banakus, the Chairman acting President and a director of the Company, who purchased 350,000 Units, and (ii) Ronald J. Saul, a director of the Company who with his spouse purchased 1,350,000 Units.

On May 20, 2007, the Company agreed to extend and amend certain of the terms of the loans (collectively, the "Loan Extension") made to the Company on June 14, 2005 (collectively, the "Original Loans") by Mr. Saul, Richard Banakus, the Chairman and a director of the Company, and Regis Synan (individually, a "Lender" and collectively, the "Lenders") in the amounts of \$50,000, \$50,000 and \$50,000, respectively. Under the terms of the Loan Extension, the Lenders agreed to extend the maturity date of the Original Loans from June 14, 2007 to June 14, 2008. In consideration for the Loan Extension, the Company agreed to grant each Lender a common stock warrant (the "Loan Extension Warrants") exercisable for Seventy Five Thousand (75,000) shares of the Common Stock for a five-year period at an exercise price of \$0.20 per share of Common Stock. In addition, the Lenders agreed to continue to allow the Company to pay quarterly interest in cash or in shares of Common Stock. In the case of interest paid in shares of Common Stock, the Company agreed to modify the valuation for such shares to \$0.20 per share of Common Stock. The Board of Directors of the Company approved the Loan Extension and the Loan Extension Warrants unanimously with Messrs. Saul

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

and Banakus abstaining from the vote, and agreed to reserve sufficient shares of Common Stock in the event of the exercise of the Loan Extension Warrant.

14

On May 20, 2007, the Board of Directors approved the grant to Mr. Saul of an option to purchase Two Hundred Thousand (200,000) shares of Common Stock (the "Option Grant"), with a grant date effective May 18, 2007, the last trading date for the Common Stock prior to the grant, for a five-year period at an exercise price of \$0.2115 per share of Common Stock, being the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common Stock traded and having such other terms as provided in the Company's 2003 Stock Plan. The Board made the Option Grant to compensate Mr. Saul for services provided and to be provided by him in connection with the Company's financial and treasury operations, as well as the production of its products. Mr. Saul will assume certain of Dr. Reitz's responsibilities on an interim basis.

On May 22, 2007, Ronald J. Saul, a director of Hydron Technologies, Inc., lent the Company One Hundred Thousand Dollars (\$100,000) (the "Loan"). The term of the Loan is six months and bears interest at the rate of ten percent (10%). Interest on the Loan is payable monthly and may be paid in cash, or at the option of the Company, in shares of common stock of the Company ("Common Stock"), valued for this purpose at the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common Stock traded. In addition, in consideration of the Loan, the Company has granted Mr. Saul a common stock warrant (the "Loan Warrant") exercisable for One Hundred Thousand (100,000) shares of Common Stock for a five-year period at an exercise price of \$0.2115 per share of Common Stock. The warrant was valued using the Black Scholes model at \$42,280. The Board of Directors of the Company approved the Loan and the Loan Warrant unanimously with Mr. Saul abstaining from the vote, and agreed to reserve sufficient shares of Common Stock in the event of the exercise of the Loan Warrant. The purpose of the Loan was to provide the Company with additional cash to remain current on its operating expenses, help reestablish credit terms with the Company's vendors, reduce outstanding payables and purchase additional raw materials on more advantageous terms.

On July 18, 2007, Hydron Technologies, Inc., sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007 (the "Subscription Agreement").

### NOTE J - GOING CONCERN AND MANAGEMENT'S PLAN

The accompanying consolidated financial statements were prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of operations.

The Company's independent accountants issued a "going concern" opinion on the Company's December 31, 2006 financial statements, since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

15

On February 1, 2007, the Company, commenced an offering ("Offering") of up to 3,300,000 units ("Units") comprised of one (1) share ("Share") of its

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common stock having a total gross purchase price of \$330,000. On February 1, 2007 the Company closed on the sale of 2,100,000 Units resulting in gross proceeds to the Company of \$210,000. On February 5, 2007, the Company closed on the sale of an additional 1,100,000 Units resulting in gross proceeds to the Company of \$110,000. On February 8, 2007 the Company closed on the sale of an additional 100,000 Units resulting in gross proceeds to the Company of \$10,000. On March 21, 2007 the Company closed on the sale of an additional 500,000 Units resulting in gross proceeds to the Company of \$50,000.

On July 18, 2007, Hydron Technologies, Inc., sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007 (the "Subscription Agreement").

The Company used the proceeds of the Offering to pay current obligations of the Company, including payments made to its landlord for outstanding rent.

The Company's working capital deficit was approximately (\$462,000) at June 30, 2007, including cash and cash equivalents of \$4,999. Cash used in operating activities was \$528,957, cash used in investing activities was \$2,150 and cash provided by financing activities was \$529,166 during the period ended June 30, 2007.

The Company does not have any material debt other than the loan payable of \$150,000 borrowed from three shareholders in June 2005 (see Note F), the loan payable of \$100,000 borrowed from a shareholder in May 2007 (see Note F), and two capital leases for equipment purchases of \$37,953. The Company has a substantial overdue trade accounts payables balance. There are no capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

Management's plan includes implementing one or more of the following elements:

- o Emphasize and expand the marketing and manufacturing of private label products.
- o Implement new direct sales and networking initiatives.
- o Emphasize Catalog sales, including sales made over the Internet, since these sales have higher profit margins.
- o Evaluate the possibilities of increasing direct marketing and direct response television exposure to build brand awareness and revenues.

16

- o Team with third parties to build the advertising and promotion of the Hydron(R) brand, as the Company does not have the financial resources to sustain a national advertising campaign to support distribution of its production into retail stores.
- o Develop and market new product lines based on the Company's proprietary technologies.

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

- o Continue to reduce overhead and operating costs.
- o Obtain an infusion of capital that will sustain the Company's operation until the newly established licensing initiatives can produce positive cash flow.

There can be no assurances that management's plan will be successful and the Company's actual results could differ materially. No estimate has been made to the financial statements to account for the possibility that the plan may be unsuccessful.

### NOTE K - SUBSEQUENT EVENTS

On July 18, 2007, Hydron Technologies, Inc., sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007 (the "Subscription Agreement").

17

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD LOOKING INFORMATION

The following discussion and analysis of the Company's financial condition and results of operations should be read with the consolidated financial statements and related notes contained in this quarterly report on Form 10-QSB ("Form 10-QSB"). All statements other than statements of historical fact included in this Form 10-QSB are, or may be deemed to be, 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. These statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different than any expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: 1. General economic factors including, but not limited to, changes in interest rates and trends in disposable income; 2. Information and technological advances; 3. Cost of products sold; 4. Competition; and 5. Success of marketing, advertising and promotional campaigns. The Company is subject to specific risks and uncertainties related to its business model, strategies, markets and legal and regulatory environment. You should carefully review the risks described in this Form 10-QSB and in other documents the Company files from time to time with the SEC. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-QSB. The Company undertakes no obligation to publicly release any revisions to the forward-looking statements to reflect events or circumstances after the date of this document.

### BUSINESS

During early 2005, the Company returned its focus to the development and sales of its skin care products. For several years prior, the Company's research and development efforts were concentrated on products and medical applications utilizing its patented tissue oxygenation technology, and on

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

accumulating data for a Food & Drug Administration (FDA) application related to this technology. On January 10, 2005, the Company attended a Pre-Investigational Device Exemption meeting with the FDA in the belief that a clear pathway for safety and clinical research requirements could be determined at that time; however, a defined methodology could not be agreed upon at that time. As a result of that meeting, and in consideration of the Company's limited working capital, management decided to refocus its efforts on non-medical technologies. The Company continues to believe that its tissue oxygenation technology has significant potential, and expects to re-institute research and development in that area when working capital allows.

The Company's current focus is on furthering development and sales of its other proprietary products, including a newly patented evaporating emulsifier technology for use in cosmetic treatments and acne products, a number of patented polymer skin care formulas using a moisture-attracting ingredient (the "Hydron(R) polymer") that provide superior skin moisturization benefits and sunscreen delivery, and a patented formula for a wrinkle reduction serum.

18

Currently, the Company markets a broad range of cosmetic and oral health care products using a moisture-attracting ingredient (the "Hydron(R) polymer") and a topical delivery system for active ingredients including pharmaceuticals. The Company holds U.S. and international patents on, what management believes is, the only known cosmetically acceptable method to suspend the Hydron polymer in a stable emulsion for use in personal care/cosmetic products. The Company is developing other personal care/cosmetic products for consumers using its patented technology and would, when appropriate, either seek licensing arrangements with third parties, or develop and market proprietary products through its own efforts. Management believes that because of their unique properties, products that utilize the Hydron polymer have the potential for wide acceptance in consumer and professional health care markets.

On July 1, 2005, the Company purchased Clinical Results, Inc. ("CRI"), for two million (2,000,000) shares of the Company's common stock. Through the purchase of CRI the Company has entered the business of proprietary formulations and contract manufacturing for other consumer product companies.

### LIQUIDITY

The Company anticipated that present working capital balances and internally generated funds will not be sufficient to meet our working capital needs for the next three months. It will be necessary to sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion on the Company's December 31, 2006 financial statements, since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

On February 1, 2007, the Company, commenced an offering ("Offering") of up to 3,300,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common stock having a total gross purchase price of \$330,000. On February 1, 2007 the Company closed on the sale of 2,100,000 Units resulting in gross proceeds to the Company of \$210,000. On February 5, 2007, the Company closed on the sale of an additional 1,100,000 Units resulting in gross proceeds to the Company of \$110,000. On February 8, 2007 the Company closed on the sale of an additional 100,000 Units resulting in gross proceeds to the Company of \$10,000. On March 21, 2007 the Company closed on the sale of an additional 500,000 Units resulting in gross proceeds to the Company of \$50,000.

On July 18, 2007, Hydron Technologies, Inc., sold 250,000 units

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007 (the "Subscription Agreement").

The Company used the proceeds of the Offering to pay current obligations of the Company, including payments made to its landlord for outstanding rent.

The Company's working capital deficit was approximately (\$462,000) at June 30, 2007, including cash and cash equivalents of \$4,999. Cash used in operating activities was \$528,957, cash used in investing activities was \$2,150 and cash provided by financing activities was \$529,166 during the period ended June 30, 2007.

19

The Company does not have any material debt other than the loan payable of \$150,000 borrowed from three shareholders in June 2005 (see Note F), the loan payable of \$100,000 borrowed from a shareholder in May 2007 (see Note F), and two capital leases for equipment purchases of \$37,953. The Company has a substantial overdue trade accounts payables balance. There are no capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

Management's plan includes implementing one or more of the following elements:

- o Emphasize and expand the marketing and manufacturing of private label products.
- o Implement new direct sales and networking initiatives.
- o Emphasize Catalog sales, including sales made over the Internet, since these sales have higher profit margins.
- o Evaluate the possibilities of increasing direct marketing and direct response television exposure to build brand awareness and revenues.
- o Team with third parties to build the advertising and promotion of the Hydron(R) brand, as the Company does not have the financial resources to sustain a national advertising campaign to support distribution of its production into retail stores.
- o Develop and market new product lines based on the Company's proprietary technologies.
- o Continue to reduce overhead and operating costs.
- o Obtain an infusion of capital that will sustain the Company's operation until the newly established licensing arrangements can produce positive cash flow.

There can be no assurances that management's plan will be successful and the Company's actual results could differ materially. No estimate has been made to the financial statements to account for the possibility that the plan may be unsuccessful.

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

### HYDRON(R) BRANDED SKIN CARE PRODUCTS

The Company has been developing various consumer products using Hydron polymers since 1986. The Company's products are designed to address concerns about the visible signs of aging, and include Hydron(R) skincare, hair care, bath and body and sun care lines. The Company currently has forty three individual branded products available in the following product categories: skin care (34 products), hair care (6 products), bath and body (12 products), dental (3 products) and sun care (2 products). These products are also packaged into collections and sold at a more favorable value than the individual products sold separately. All of the products are available through the Hydron catalog and web site at [www.hydron.com](http://www.hydron.com) ("Catalog"). The Company also markets a number of customized formulations under private label and contract manufacturing for various outside brands.

20

Management believes that the Company's moisturizers and skin treatments are unique and offer the following competitive benefits: they self-adjust to match the skin's optimal pH balance soon after they are applied to the skin; they become water-insoluble on the skin's surface, and unlike all other water-based cremes and lotions, are not removed by the skin's perspiration or plain water; they are oxygen-permeable, allowing the skin to breathe; they do not emulsify the skin's natural moisturizing agents, as do conventional cremes and lotions; and they attract and hold water, creating a cushion of moisture on the skin's surface that promotes penetration of other beneficial product ingredients, all while leaving no greasy after-feel.

The Company's products are independently tested by dermatologists and, in their opinion, are considered to be safe, non-irritating and applicable to most skin types. Products for use around the eye area are also ophthalmologist tested and safe for contact lens wearers. Most of the Company's branded moisturizing products are based on the Company's patented emulsion system, which permits the product ingredients to deliver their intended benefits over an extended period of time and in a more efficient manner.

Management believes that the Hydron(R) emulsion system can enhance the effectiveness of topical over-the-counter medications. The emulsion system is designed to deposit a polymer film on the skin's surface which has a number of advantages over traditional lotions: it promotes hydration of the outer layer of skin, improves penetration into the skin's pores, and has good tactility and flexibility. The Company expects to continue to focus research and development resources on proprietary technology-based products as determined by management's assessment of consumer demand.

Catalog and Web Sales - The Company offers personal care products for sale directly to consumers. Augmenting direct mail, the Company sells its products on the World Wide Web and regularly transmits E-mail broadcasts to its customer base. Catalog and Web sales represented approximately 39% of Hydron's total sales for the six months ended June 30, 2007 and 40% of sales the six months ended June 30, 2006. The Company is continuing to explore new ways to enhance Catalog and Web sales and operations, including direct sales initiatives.

Private Label Contracting - Since March 1, 2001, the Company has been a supplier to Reliv International, Inc ("Reliv") to develop and manufacture a line of private label skin care products under their brand name, ReversAge(R). Reliv is a public company traded on NASDAQ (symbol RELV). Private label sales represented approximately 13% of Hydron's total sales for the six months ended June 30, 2007 and 15% of sales for the six months ended June 30, 2006.

Contract Manufacturing - Through its acquisition of CRI, the Company now

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

manufactures consumer products for a number of companies. Products include proprietary formulations for skin and hair care. During the six month period ending June 30, 2007, contract manufacturing revenue represented 41% of Hydron's total sales and 29% for the six months ended June 30, 2006.

Formulation and Commission - The Company received a \$60,000 payment for formulation services that its subsidiary Clinical Results, Inc had previously performed in the six months ended June 30, 2006. Formulation sales represented 17% of sales and Commissions represented 5% of sales for the six months ended June 30, 2006. The company received \$0 commission on formulation sales for the six months ended June 30, 2007.

21

### RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS - 2007 VERSUS 2006

Total net sales for the three months ended June 30, 2007 were \$336,134, a decrease of \$10,729 or 3% from net sales of \$346,863 for the three months ended June 30, 2006. Catalog Sales net sales for the three months ended June 30, 2007 were \$119,346, a decrease of \$16,075 or 12% from sales of the three months ended June 30, 2006 of \$135,421. Private Label and Contract Manufacturing net sales for the three months ended June 30, 2007 were \$201,116, an increase of \$82,462 or 69% from sales the three months ended June 30, 2006 of \$118,654. Formulation and commission net sales for the three months ended June 30, 2007 were \$0, a decrease of \$79,050 or 100% from sales for the three months ended June 30, 2006. Shipping and handling revenues for the three months ended June 30, 2007 were \$15,672, an increase of \$1,934 or 14% from shipping and handling revenues for the three months ended June 30, 2006 of \$13,738.

Total net sales for the six months ended June 30, 2007 were \$653,267, a decrease of \$69,063 or 10% from net sales of \$722,330 for the six months ended June 30, 2006. Catalog Sales net sales for the six months ended June 30, 2007 were \$256,493, a decrease of \$34,527 or 12% from sales of the six months ended June 30, 2006 of \$291,020. Private Label and Contract Manufacturing net sales for the six months ended June 30, 2007 were \$364,017, an increase of \$38,327 or 12% from sales the six months ended June 30, 2006 of \$325,690. Formulation and commission net sales for the six months ended June 30, 2007 were \$0, a decrease of \$79,050 or 100% from sales for the six months ended June 30, 2006. Shipping and handling revenues for the six months ended June 30, 2007 were \$32,757, an increase of \$6,188 or 23% from shipping and handling revenues for the six months ended June 30, 2006 of \$26,569.

The decrease in catalog sales was the result of the attrition of the Company's customer base without marketing spending to replace those customers. Private Label Manufacturing sales increased due to the timing of shipments to contract manufacturing customers.

Cost of sales was \$151,980 for the three months ended June 30, 2007, an increase of \$60,886, or 67%, from cost of sales of \$91,094 for the three months ended June 30, 2006. Cost of sales was 45% of total sales for the three months ended June 30, 2007, compared to 26% for the three months ended June 30, 2006. The increase in the cost of sales percentage reflects the impact of private label, commission and formulation sales. Cost of sales for private label sales was in direct proportion to the sales level. Cost increases are not material to catalog sales and the private label contracts provide for a pass through of any cost increases incurred in that segment. Shipping and handling costs for the second quarter of 2007 were \$20,942, an increase of \$2,199, or 12%, from shipping and handling cost of \$18,743 for the same period in 2006. This decrease reflects the decline in catalog sales plus savings realized by performing more

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

of the shipping and handling tasks in-house.

For the six months ended June 30, 2007 cost of sales was \$286,261, an increase of \$49,443 or 21% from cost of sales of \$236,818 for the six months ended June 30, 2006. Cost of sales was 44% of total sales for the six months ended June 30, 2007 compared to 33% for the six months ended June 30, 2006. The increase in cost of sales percentage reflects the impact of last period's formulation and commission net sales as stated above. Shipping and handling costs for the six months were \$39,071, an increase of \$1,688 or 4% from shipping and handling costs of \$37,383 for the same period in 2006.

22

The Company's overall gross profit margin decreased to 55% of net sales for the three months ended June 30, 2007 versus 74.0% for the three months ended June 30, 2006. This reflects the decrease in formulation and commission sales as discussed above, less the relative mix of higher margin catalog sales versus lower margin private label sales. For the six months ended June 30, 2007 the overall gross profit margin decreased similarly to 56% of net sales versus 67% for the same period in 2006.

Royalty expenses for the three months ended June 30, 2007 were \$0 and \$1,543 for the three months ended June 30, 2006. Royalty expenses for the six months ended June 30, 2007 were \$0 and \$9,043 for the six months ended June 30, 2006. An aggregate of \$16,803 was accrued and unpaid as of June 30, 2007. This amount is adequate to cover any royalties that are payable through June 2007.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, obtain regulatory approval, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, and conduct consumer panel studies and focus groups. R&D expenses were \$0 for the three months ended June 30, 2007, a decrease of \$5,957 or 100% from R&D expenses of \$5,957 for the three months ended June 30, 2006. R&D expenses were \$3,871 for the six months ended June 30, 2007, a decrease of \$3,096 or 44% from R&D expenses of \$6,967 for the six months ended June 30, 2006. The amount of annual R&D expenses will vary year to year depending on the Company's research requirements.

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2007 were \$367,518, representing an increase of \$23,233 or 7% from SG&A expenses of \$344,285 for the three months ended June 30, 2006. Employment expense was \$151,700 for the three months ended June 30, 2007, an increase of \$4,492, or 3%, from \$147,208 for the three months ended June 30, 2006. Advertising and promotional expenses was \$1,895 for the three months ended June 30, 2007, a decrease of \$19,557, or 91% from \$21,452 for the three months ended June 30, 2006. This decrease is due to the Company cutting back on the new advertising initiatives taken by the Company in 2006 to increase sales. Rent expense was \$36,497 for the three months ended June 30, 2007, an increase of \$17,308, or 90% from \$19,189 for the three months ended June 30, 2006. The increase in rent is due primarily to increased pass through costs for property insurance from the landlord. Professional expenses (legal and audit) was \$31,944 for the three months ended June 30, 2007, a decrease of \$9,880 or 24% from \$41,824 for the three months ended June 30, 2006. The decrease in professional fees involved less spent on legal expenses. Settlement expense was \$37,404 for the three months ended June 30, 2007, an increase of \$37,404, or 100% from \$0 for the three months ended June 30, 2006. The increase in settlement expense was due to the Company resolving a dispute with a customer. All other expenses were \$108,078 for the three months ended June 30, 2007, a decrease of \$6,534 or 6% from \$114,612 for the three months ended June 30, 2006. For the six months ended June 30, 2007 selling, general and administrative expenses were \$680,350, a decrease of \$27,459 or 4% from \$707,809 for the same period last year.

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Depreciation and amortization expense was \$23,741 for the three months ended June 30, 2007, a decrease of \$1,669 from \$25,410 for the three months ended June 30, 2006. Depreciation and amortization expense was \$47,200 for the six months ended June 30, 2007, a decrease of \$3,620 from \$50,820 for the six months ended June 30, 2006.

23

Net interest (expense) was (\$16,104) for the three months ended June 30, 2007 compared to net interest (expense) of (\$21,528) for the three months ended June 30, 2006. Net interest (expense) was (\$26,264) for the six months ended June 30, 2007 compared to net interest (expense) of (\$48,600) for the six months ended June 30, 2006. The decrease in interest expense was due primarily to the interest on the loan payable and amortization of related debt discount.

Minority interest in net loss for the three months ended June 30, 2007 was \$4,541 compared to \$5,139 for the three months ended June 30, 2006. Minority interest in net loss for the six months ended June 30, 2007 was \$9,093 compared to \$14,188 for the six months ended June 30, 2006. This minority interest is created from a consolidated limited liability partnership, Hydron Royalty Partners, LLLP, established by the Company in August 2004.

The Company had a net loss of \$218,668 for the three months ended June 30, 2007, representing an increase of \$80,853 or 59% from the net loss of \$137,815 for the three months ended June 30, 2006. The Company had a net loss of \$381,586 for the six months ended June 30, 2007, representing an increase of \$58,047 or 18% from the net loss of \$323,539 for the six months ended June 30, 2006, primarily as a result of the factors discussed above.

### APPLICATION OF CRITICAL ACCOUNTING POLICIES

-----

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates these estimates, including those related to bad debts, inventories, investments, intangible assets, income taxes, restructuring, and contingencies and litigation. Management bases these estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies are significant in preparation of our financial statements.

#### Allowance for Sales Returns

-----

The Company records product sales when persuasive evidence of an arrangement exists, shipment has occurred, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Catalog sales are sold on a cash basis with a 30-day guarantee. Returns have been less than \$10,000 annually for the last five years. A provision is made at the time sales are recognized for the estimated cost of product warranties. Private label sales are sold on account and are collected in 30 to 45 days. If there is a production or packaging problem, the Company would correct the problem and replace the product sold. To minimize that possibility, the Company inspects all production batches before they are packaged to ensure quality, efficacy, and consistency.

# Inventory Valuation

-----

Shifting sales from one item in our product line to another or minimum production requirements may create a situation where inventory levels of specific items may exceed the annual sales of that item. This can create inventory levels in excess of net realizable value. Management regularly reviews inventory quantities on hand and, where necessary, records provisions for excess and obsolete inventory based on either estimated forecast of product demand or historical usage of the product. If sales do not materialize as planned or decline below historic levels, management increases the reserve for excess (quantities in excess of one year's sales) and obsolete inventory. This would reduce earnings and cash flows.

Packaging changes are planned far in advance in order to limit the impact of out-dated or obsolete components. Private label customers are required to prepay the cost of packaging materials in order to take advantage of volume discounts and protect the Company from any sudden packaging changes.

## ITEM 3. CONTROLS AND PROCEDURES

As of the end of this period, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer concluded that the Company had material weaknesses associated with insufficient personnel resources with appropriate accounting experience and lack of controls relating to inventory valuation and segregation of inventory. During the second quarter management hired new personnel with appropriate accounting experience, and is in the process of implementing a perpetual inventory system which should mitigate these material weaknesses in 2007.

Disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

The Certifying Officer has also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including the Certifying Officer, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to, and its property is not the subject of, any material pending legal proceedings.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On February 1, 2007, the Company, commenced an offering ("Offering") of up to 3,300,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common stock having a total gross purchase price of \$330,000. On February 1, 2007 the Company closed on the sale of 2,100,000 Units resulting in gross proceeds to the Company of \$210,000. On February 5, 2007, the Company closed on the sale of an additional 1,100,000 Units resulting in gross proceeds to the Company of \$110,000. On February 8, 2007 the Company closed on the sale of an additional 100,000 Units resulting in gross proceeds to the Company of \$10,000. On March 21, 2007 the Company closed on the sale of an additional 500,000 Units resulting in gross proceeds to the Company of \$50,000.

On July 18, 2007, Hydron Technologies, Inc., sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007 (the "Subscription Agreement").

The Company used the proceeds of the Offering to pay current obligations of the Company, including payments made to its landlord for outstanding rent.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

26

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A Meeting of the Shareholders of the Company was held on November 15,

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

2004, in Boca Raton, Florida (the "Meeting"). At the Meeting, the shareholders of the Company voted on proposals to (i) elect a Board of four directors to serve until the Company's next meeting of shareholders and until their successors are elected and qualified and approved the Company's 2003 Stock Plan. The results of the voting appointed the following Directors:

Richard Banakus  
Joshua Rochlin  
Karen Gray  
Ronald J. Saul

The Shareholders also approved the adoption of the Company's 2003 Stock Plan and ratified the Audit Committee's selection of Daszkal Bolton LLP as the Company's independent Certified Public Accountants for the year ended December 31, 2004. There was no shareholder meeting held in 2006.

Mr. Joshua Rochlin resigned from the Board of Directors of Hydron Technologies, Inc. effective March 31, 2005 due to his increased commitments at Marc Ecko Enterprises. Mr. David Pollock was appointed to replace him on July 1, 2005.

No meeting of shareholders of the Company was held in 2006 and 2007. Directors elected by the shareholders at the last annual meeting, as well as David Pollock, the director elected by the Board of Directors, have continued in office. Moreover, in light of the absence of a meeting of shareholders, the Board of Directors has appointed Sherb & Co. as the Company's independent accounting firm.

### ITEM 5. OTHER EVENTS

DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.

Dr. R. Douglas Reitz, an Executive Vice President of the Company, who had responsibilities that included oversight over production of the Company's products, resigned on May 17, 2007. Dr. Reitz was employed by the Company pursuant to an employment agreement dated as of July 1, 2005 (the "Employment Agreement"). In connection with Dr. Reitz's resignation, the Company and Dr. Reitz executed a Separation Agreement which paid Dr. Reitz his salary thru May 31, 2007 and all Vacation Pay he was entitled to in consideration for certain releases and agreements.

As a related matter, on May 20, 2007, the Board of Directors approved the grant to Mr. Saul of an option to purchase Two Hundred Thousand (200,000) shares of Common Stock (the "Option Grant"), with a grant date effective May 18, 2007, the last trading date for the Common Stock prior to the grant, for a five-year period at an exercise price of \$0.2115 per share of Common Stock, being the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common Stock traded and having such other terms as provided in the Company's 2003 Stock Plan. The Board made the Option Grant to compensate Mr. Saul for services provided and to be provided by him in connection with the Company's financial and treasury operations, as well as the production of its products. Mr. Saul will assume certain of Dr. Reitz's responsibilities on an interim basis.

27

### ITEM 6. EXHIBITS

The following documents are filed as a part of this report or are incorporated by reference to previous filings, if so indicated:

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

- 3.1 Restated Certificate of Incorporation of Dento-Med Industries, Inc. ("Dento-Med"), as filed with the Secretary of State of New York on March 4, 1981.(1)
- 3.2 Certificate of Amendment of the Certificate of Incorporation of Dento-Med as filed with the Secretary of State of New York on September 7, 1984.(2)
- 3.3 By-laws of the Company, as amended March 17, 1988.(3)
- 3.4 Certificate of Change of Dento-Med as filed with the Secretary of State of New York on July 14, 1988.(2)
- 3.5 Certificate of Amendment of the Restated Certificate of Incorporation of Dento-Med, as filed with the Secretary of State of New York on November 14, 1988.(4)
- 3.6 Certificate of Amendment of the Restated Certificate of Incorporation of Dento-Med, as filed with the Secretary of State of New York on July 30, 1993.(5)
- 3.7 Certificate of Amendment of the Restated Certificate of Incorporation of Hydron Technologies, Inc., as filed with the Secretary of State of New York on April 10, 2002.(2)
- 4.1 Non-Qualified Stock Option Plan.(6)
- 4.2 Registration Rights Agreement dated July 11, 2002, by and between Hydron Technologies, Inc. and Life International Products, Inc.(2)
- 4.3 Warrant Agreement dated November 14, 2003 between Hydron Technologies, Inc. and the parties named therein.(2)
- 7.1 Letter of Sherb & Co LLP dated May 25, 2007 addressed to the United States Securities Exchange Commission. (15)
- 10.1 Subscription Agreement dated November 22, 2002 between Hydron Technologies, Inc. and the subscribers named therein.(2)
- 10.2 Subscription Agreement dated September 31, 2003 between Hydron Technologies, Inc. and the subscribers named therein.(2)
- 10.3 Agreement dated July 11, 2002 between Hydron Technologies, Inc. and Life International Products, Inc.(2)
- 10.4 1997 Nonemployee Director Stock Option Plan.(7)
- 10.5 Bridge Loan Term Sheet for Interim Loans Between Hydron Technologies, Inc and Members of the Board of Directors.(2)
- 10.6 2003 Stock Plan(8)
- 10.7 Note dated June 14, 2005 in the principal amount of \$50,000 payable to payable to Richard Banakus (9)
- 10.8 Note dated June 14, 2005 in the principal amount of \$50,000 payable to Ronald J. Saul and Antonette G. Saul, jointly (9)

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

- 10.9 Note dated June 14, 2005 in the principal amount of \$50,000 payable to Regis Synan (9)
- 10.10 Common Stock Purchase Warrant dated June 14, 2005 in favor of Richard Banakus (9)
- 10.11 Common Stock Purchase Warrant dated June 14, 2005 in favor of Ronald J. Saul and Antonette G. Saul, jointly (9)
- 10.12 Common Stock Purchase Warrant dated June 14, 2005 in favor of Regis Synan (9)
- 10.13 Purchase and Sale Agreement by and among Clinical Results, Inc., David Pollock and Douglas Reitz and Hydron Technologies, Inc., dated July 1, 2005 (10)
- 10.14 Employment Agreement for David Pollock (10)
- 10.15 Employment Agreement for Richard Douglas Reitz (10)
- 10.16 Form of Assignment (11)
- 10.17 Subscription Agreement dated January 31, 2007 between Hydron Technologies, Inc. and Richard Banakus (13)
- 10.18 Subscription Agreement dated January 31, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.19 Subscription Agreement dated February 5, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.20 Common stock Purchase Warrant dated February 1, 2007 in favor of Richard Banakus (13)
- 10.21 Common stock Purchase Warrant dated February 1, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.22 Common stock Purchase Warrant dated February 5, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.23 Subscription Agreement dated March 21, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (14)
- 10.24 Common stock Purchase Warrant dated March 21, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (14)
- 10.25 Subscription Agreement dated July 18, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (16)
- 10.26 Common stock Purchase Warrant dated July 18, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (16)
- 16. Letter from Daszkal Bolton LLP dated December 4, 2006 to the Securities and Exchange Commission (12)

- 23.1 Consent of Independent Registered Public Accounting Firm- Daszkal

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Bolton LLP

- 23.2 Consent of Independent Registered Public Accounting Firm - Sherb & Co. LLP
- 31.1 Certification of Chief Executive Officer, Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith)
- 32.1 Certification of Chief Executive Officer, Principal Financial and Accounting Officer Pursuant to 18 U.S.C., Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 99 Press Release dated July 6, 2005 incorporated by reference to Form 8-K filed on July 8, 2005.

- 
- (1) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1985.
- (2) Incorporated by reference to the Company's report on Form S-3 filed February 11, 2004.
- (3) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1987.
- (4) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1988.
- (5) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1993.
- (6) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1986.
- (7) Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A for the year ended December 31, 1996.
- (8) Incorporated by reference to the Company's Definitive Proxy Statement for the year ended December 31, 2003.
- (9) Incorporated by reference to Form 8-K filed June 20, 2005
- (10) Incorporated by reference to Form 8-K filed July 8, 2005
- (11) Incorporated by reference to Form 8-K filed November 2, 2005
- (12) Incorporated by reference to Form 8-K filed December 5, 2006
- (13) Incorporated by reference to Form 8-K filed February 7, 2007
- (14) Incorporated by reference to Form 8-K filed March 21, 2007
- (15) Incorporated by reference to Form 8-K filed May 20, 2007
- (16) Incorporated by reference to Form 8-K filed July 18, 2007

## Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10QSB

Pursuant to the requirements 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.

HYDRON TECHNOLOGIES, INC.

/s/: David Pollock

-----

David Pollock

Chief Executive Officer

Principal Financial and Accounting Officer

Dated: August 13, 2007