

HYDROMER INC
Form 10-Q
February 15, 2013

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

FORM 10-Q

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

For the quarterly period ended: December 31, 2012

or

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

For the transition period from: _____ to _____

HYDROMER INC.

(Exact name of registrant as specified in its charter)

New Jersey 001-31238 22-2303576
(State or Other Jurisdiction (Commission (I.R.S. Employer
of Incorporation or Organization) File Number) Identification No.)

35 Industrial Pkwy, Branchburg, New Jersey 08876-3424

(Address of Principal Executive Offices) (Zip Code)

(908) 722-5000

(Registrant's telephone number, including area code)

N/A

(Former name or former address and former fiscal year, if changed since last report)

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: As of December 31, 2012 There were 4,772,318 shares outstanding

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.

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as of December 31, 2012 & June 30, 2012

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for the three and six months ended December 31, 2012 and 2011

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for the six months ended December 31, 2012 and 2011

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N/A

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N/A

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N/A

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N/A

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N/A

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EXHIBIT INDEX

Exhibit No. Description of Exhibit

- | | |
|------|--|
| 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 Condensed Consolidated Financial Statements****HYDROMER, INC. and CONSOLIDATED SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS**

| | December 31, 2012 (unaudited) | June 30, 2012 |
|--|---|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$294,842 | \$280,878 |
| Trade Receivables less allowance for doubtful accounts of \$7,255 and \$5,622 as of December 31, 2012 and June 30, 2012, respectively | 814,224 | 993,378 |
| Inventory | 346,331 | 309,369 |
| Prepaid Assets | 170,472 | 207,207 |
| Other | 117,603 | 3,485 |
| Total Current Assets | 1,743,472 | 1,794,317 |
| Property and Equipment, net | 2,601,900 | 2,682,221 |
| Deferred tax asset, non-current | 1,274,859 | 1,267,311 |
| Intangible assets, net | 746,917 | 761,519 |
| Other | 49,107 | 20,358 |
| Total Assets | \$6,416,255 | \$6,525,726 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Accounts Payable | \$497,224 | \$385,113 |
| Accrued Expenses | 237,626 | 342,361 |
| Current portion of capital lease | 5,887 | 16,499 |
| Current portion of deferred revenue | 126,399 | 135,323 |
| Current portion of mortgage payable | 57,855 | 55,899 |
| Total Current Liabilities | 924,991 | 935,195 |
| Deferred Tax Liability | 251,758 | 251,758 |
| Long term portion of deferred revenue | 121,359 | 145,593 |
| Long term portion of mortgage payable | 2,625,655 | 2,656,239 |
| Total Liabilities | 3,923,763 | 3,988,785 |
| Stockholders' 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 December 31, 2012 and June 30, 2012 | 3,721,815 | 3,721,815 |
| Contributed capital | 633,150 | 633,150 |
| Accumulated deficit | (1,856,333) |) (1,811,884) |
| Treasury stock, 10,917 common shares at cost | (6,140) |) (6,140) |

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| | | |
|--|-------------|-------------|
| Total Stockholders' Equity | 2,492,492 | 2,536,941 |
| Total Liabilities and Stockholders' Equity | \$6,416,255 | \$6,525,726 |

See accompanying notes

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

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------|-------------------------|--------------|
| | December 31, | | December 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | | | | |
| Sales of Products | \$681,321 | \$744,189 | \$1,277,403 | \$1,501,239 |
| Service Revenues | 335,167 | 371,248 | 656,938 | 721,647 |
| Royalties and contract revenues | 315,140 | 277,271 | 663,777 | 618,419 |
| Total Revenues | 1,331,628 | 1,392,708 | 2,598,118 | 2,841,305 |
| Expenses | | | | |
| Cost of Sales | 405,097 | 422,119 | 765,246 | 838,131 |
| Operating Expenses | 938,745 | 1,037,556 | 1,900,213 | 2,142,881 |
| Other (Income) Expenses | (67,665) | 54,981 | (17,344) | 106,240 |
| Provision for (Benefit from) Income Taxes | 22,078 | (46,862) | (5,548) | (84,672) |
| Total Expenses | 1,298,255 | 1,467,794 | 2,642,567 | 3,002,580 |
| Net Income (Loss) | \$33,373 | \$(75,086) | \$(44,449) | \$(161,275) |
| Income (Loss) Per Common Share | \$0.01 | \$(0.02) | \$(0.01) | \$(0.03) |
| Weighted Average Number of Common Shares Outstanding | 4,772,318 | 4,772,318 | 4,772,318 | 4,772,318 |

See accompanying notes.

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

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

| | Six Months Ended | |
|--|------------------|--------------|
| | December 31, | |
| | 2012 | 2011 |
| Cash Flows from Operating Activities: | | |
| Net Loss | \$(44,449) | \$(161,275) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities | | |
| Depreciation and Amortization | 197,967 | 209,654 |
| Deferred income taxes | (7,548) | (86,672) |
| Changes in Assets and Liabilities | | |
| Trade receivables | 179,154 | (42,490) |
| Inventory | (36,962) | 135,578 |
| Prepaid expenses | 9,884 | 44,669 |
| Other assets | (142,867) | 7,305 |
| Accounts payable and accrued liabilities | 9,215 | (73,545) |
| Deferred income | (33,158) | (106,291) |
| Income taxes payable | (2,000) | (2,000) |
| Net Cash Provided by (Used in) Operating Activities | 153,236 | (75,067) |
| Cash Flows from Investing Activities: | | |
| Cash purchases of property and equipment | (28,667) | (31,880) |
| Cash payments on patents and trademarks | (81,977) | (57,756) |
| Redemption of matured short-term investments | 0 | 50,000 |
| Net Cash Used in Investing Activities | (110,644) | (39,636) |
| Cash Flows from Financing Activities: | | |
| Repayment of long-term borrowings | (28,628) | (26,733) |
| Net Cash Used in Financing Activities | (28,628) | (26,733) |
| Net Increase (Decrease) in Cash and Cash equivalents | 13,964 | (141,436) |
| Cash and Cash equivalents, Beginning of Period | 280,878 | 502,597 |
| Cash and Cash equivalents, End of Period | \$294,842 | \$361,161 |
| 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 on Form 10-K for the year ended June 30, 2012. The condensed balance sheet at June 30, 2012 was derived from audited 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 six months ended December 31, by segment are:

| | Polymer Research | Medical Products | Corporate Overhead | Total |
|-----------------------|-----------------------------|-----------------------------|-------------------------------|--------------|
| 2012 | | | | |
| Revenues | \$1,944,602 | \$653,516 | | \$2,598,118 |
| Expenses | (1,348,090) | (572,066) | \$(727,959) | (2,648,115) |
| Pre-tax Income (Loss) | \$596,512 | \$81,450 | \$(727,959) | \$(49,997) |
| 2011 | | | | |
| Revenues | \$2,177,765 | \$663,540 | | \$2,841,305 |
| Expenses | (1,764,113) | (526,722) | \$(796,417) | (3,087,252) |
| Pre-tax Income (Loss) | \$413,652 | \$136,818 | \$(796,417) | \$(245,947) |

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

| | 2012 | 2011 |
|----------|-------------|-------------|
| Domestic | 72% | 63% |

Foreign 28% 37%

Inventory

Inventory consists of:

| | December 31, 2012 | June 30, 2012 |
|-----------------|--------------------------|----------------------|
| Finished goods | \$ 179,046 | \$ 132,673 |
| Work in process | 2,232 | 6,156 |
| Raw materials | 165,053 | 170,540 |
| | \$ 346,331 | \$ 309,369 |

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

Results of Operations

The Company's revenues for the quarter ended December 31, 2012 were \$1,331,628, \$61,080 or 4.4% lower than the \$1,392,708 for the same period the previous year. For the six month period ended December 31, revenues were \$2,598,118 during the current fiscal year, as compared with \$2,841,305 the year before or \$243,187 lower (8.6%). Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales were \$681,321 for the quarter ended December 31, 2012 as compared to \$744,189 for the same period the year before, a \$62,868 (8.5%) decrease primarily due to the timing of periodic (non-monthly) sales and the drop off in T-HEXX Dragonhyde Hoof Bath Concentrate sales in Europe due to the high landed cost the end user is facing. Our recently launched Dragonhyde DUST dissolvable hoof bath powder being released to Europe in 2013 should alleviate that issue. (The recommended usage of Dragonhyde DUST, which can be shipped by regular mail, is a 1 kg pouch as compared with one gallon of Dragonhyde Hoof Bath Concentrate (which weighs approximately 4 kg) which needs special handling.) The majority of the customers that ordered on a periodic basis during the 2011 period also ordered in our fiscal quarter ended June 30, 2012 which meant that their new orders are expected in early 2013. Such sales decrease was offset by an increased demand for our anti-fog condensation control coatings, Cosmetics / Personal Care intermediaries and medical device coatings. For the six month period, product sales were \$1,277,403 for the 2012 period as compared with \$1,501,239 for the 2011 period, lower by \$223,836 (14.9%), all attributable to the T-HEXX Animal Health line.

Services revenues, comprised of contract coating services, for the three months ended December 31, 2011 were \$335,167 or \$36,081 lower (9.7%) than the \$371,248 the corresponding period the year before. For the six month periods ended December 31, 2012 and December 31, 2011, services revenues were \$656,938 and \$721,647, respectively, or \$64,709 lower (9.0%). Customers exiting their respective business on products utilizing our contract coating services plus those converting to their own coating application while becoming a medical chemical polymer purchaser lowered the services revenues as compared with the prior period. These "converted" customers allow for additional revenues from medical device coating [product] sales (as reported above) and Supply and Support Agreements (see Royalty and Contract revenues following).

Classified as Royalty and Contract revenues are royalties received and the periodic recurring payments from license, stand still and other agreements other than for product and services, including 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) and are subject to the reporting of our customers. For the six months ended December 31, 2012, Royalty and Contract revenues were \$663,777, compared to \$618,419 the same period a year ago, an increase of \$45,358 (7.3%), a result of a new customer converting to Hydromer coatings under a royalty agreement.

Total Expenses for the quarter ended December 31, 2012 were \$1,298,255 as compared with \$1,467,794 the year before, a 11.6% decrease. For the six months ended December 31, 2012, Total Expenses were \$2,642,567 as compared with \$3,002,580 the previous year, a 12.0% decrease.

Reducing Total Expenses and included in Other Income for the quarter ended December 31, 2012 was \$115,344 in income recognized of the proceeds from the Company's insurance carrier, a mutual company having no shareholders, making distributions from it being acquired. There will be additional periodic payments which the Company will include in Other Income.

For the quarter ended December 31, 2012, the Company's Cost of Goods Sold was \$405,097 as compared with \$422,119 the year prior, lower by \$17,022 or 4.0%, a result of the lower product sales. For the six month period ended December 31, 2012, Cost of Goods Sold was \$765,246 as compared with \$838,131 the same period a year ago. The \$72,885 decrease (8.7%) was due to lower product sales.

Operating Expenses were \$938,745 for the quarter ended December 31, 2012 as compared to \$1,037,556 the year before, lower by \$98,811 or 9.5%, due to lower staffing levels this year. For the six months ended December 31, 2012, Operating Expenses were \$1,900,213 or \$242,668 lower (11.3%) than the previous year's \$2,142,881, primarily due to operating on a lower staffing level.

In addition to the one time \$115,344 distribution recognized as income, Other Income / Expenses includes interest expense, foreign currency exchange gains/losses and interest income. Interest expense (primarily mortgage interest) for the six months ended December 31, 2012 and December 31, 2011 was \$97,201 and \$98,743, respectively.

Net income of \$33,373 (\$0.01 per share) is reported for the quarter ended December 31, 2012 as compared to a net loss of \$75,086 (\$0.02 per share) the year before. For the six months ended December 31, 2012, a net loss of \$44,449 (\$0.01 per share) is reported as compared to a net loss of \$161,275 (\$0.03 per share) the year before.

Maintaining or reducing expenses is part of the Company's strategy in its return to profitability. Along with revenue increases (due to new products or the market penetration of current products), the Company expects to achieve profitability. While we did not see a net growth in revenue during the current period (as compared with the prior year), we expect that to occur soon.

Financial Condition

Working capital decreased \$40,641 during the six months ended December 31, 2012.

For the six months ended December 31, 2012, operating activities provided \$153,236 in net cash.

The net loss, as adjusted for non-cash expenses of depreciation and amortization and deferred income taxes, provided \$145,970 in cash. The net change in operating assets and liabilities provided an additional \$7,266 in cash. Reductions to accounts receivable and prepaid expenses were offset by the increase to other assets (the distribution by the insurance carrier, which was received in mid-January 2013).

Investing activities used \$110,644 and financing activities used \$28,628 during the six months ended December 31, 2012.

Investing activities for the six months ended December 31, 2012 included \$28,667 for capital expenditures and \$81,977 towards the Company's patent estate. Under Financing activities was the repayment of the principal portion of

the mortgage.

The Company is nearing a return to profitability. Cost management and revenue growth are the key factors and while we did not reach the same revenue levels achieved a year ago, it is certainly within reach. During the past few years, the Company's R&D resources were dedicated to its T-HEXX Animal Health product line as that could yield the quickest revenue return (as compared with the much longer term human medical product line). Some of the recent developments in the T-HEXX product line are being rolled out into the market.

Item 4 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 are 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 | Rule 13a-14(a) Certification of Chief Executive Officer and President |
| 31.2 | Rule 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 |

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: February 15, 2013 Hydromer

By: /s/ Robert Y. Lee

Robert Y. Lee

Principal Accounting officer & Chief Financial Officer

