HYDROMER INC
Form 10KSB
September 29, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D. C. 20549

FORM 10-KSB

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

For the fiscal year ended June 30, 2008

Commission File Number 0-10683

HYDROMER, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Common Stock Without Par Value

(Title of class)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities

Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB x

The aggregate market value of the voting stock held by non-affiliates of the Registrant at September 1, 2008 was approximately $1,200,286.

The number of shares of Registrant's Common Stock outstanding on September 1, 2008 was 4,772,318.

Portions of the Audited Financials Statements for the year ended June 30, 2008 are incorporated by reference in Part II of this report. Portions of the Proxy Statement of Registrant dated September 15, 2008 are incorporated by reference in Part III of this report.

PART I

Item 1. BUSINESS

General

Hydromer, Inc (the "Company") is a bio-polymer research and development company organized as a New Jersey Corporation in 1980 for the purposes of developing polymeric complexes for commercial use in the medical, commercial, cosmetics and veterinary sciences markets.

Until September 1982, approximately 99% of the outstanding common stock, without par value (the "Common Stock"), of the Company, was owned by Biosearch Medical Products Inc. ("BMPI"), which in turn was controlled by Manfred Dyck, who is the Company's current Chief Executive Officer, Director and the Chairman of the Board. On September 16, 1982, BMPI distributed its shareholdings in the Company pro rata to the holders of its common stock. In connection with this distribution, the Company granted to BMPI an exclusive, worldwide perpetual, royalty-free license for the use of Hydromer technology in connection with the development, manufacture and marketing of biomedical devices for enteral feeding applications. On February 4, 2000, the Company acquired all outstanding stock of BMPI for $0.20 per share, and now manages BMPI as a subsidiary.

The Company owns several process and applications patents for Hydromer® coatings ("Hydromer"). These polymers become extremely lubricious (slippery) when wet. Techniques have been developed for grafting or applying this substance onto a broad variety of materials, including other polymers like polyurethane, polyvinyl chloride, and silicone elastomers, ceramics and metals. The Company has also been issued patents for permanent anti-fog materials, hydrophilic polyurethane foams, hydrophilic polyurethane blends, hydrophilic polyvinylbutyral alloys, several biocompatible hydrogels and an anti-bacterial medical material. The Company continues to actively evaluate other new market opportunities for its polymer technology specifically in neurology and cardiology.

The Company also owns various trademarks, including AQUADAPT®, a medical hydrogel; AQUAMERE®, a water resistant film former product with cosmetic applications; AQUATRIX®, a cosmetic hydrogel; Dermaseal®, a dermal barrier film product for the prevention of contact dermatitis; Sea-Slide®, a coating for watercraft hulls; and T-HEXX®, a barrier teat dip product for the prevention of mastitis in dairy animals.

The Company's patents are typically broad based, having a multitude of different applications across various industries. Accordingly, the Company currently operates in the medical, commercial, cosmetics and veterinary sciences markets.

MEDICAL

From its inception in 1980 to mid-1984, the Company was primarily engaged in R&D activities related to Hydromer coatings used on medical devices. Since then and until the acquisition of BMPI, the Company's business in the medical field consisted of the sale of lubricious coatings and the licensing of its lubricious coating technologies. With the acquisition of BMPI in February 2000, the Company now offers a horizontally integrated breadth of services including medical device manufacturing, contract coating, equipment building and design, and as of more recently, R&D servicing.

The Company continues to focus on its coatings technologies as the nucleus of its participation in the medical field, including added developments of radio-opaque, biostatic/anti-microbial and more recently, cell anti-mitosis and anti-thrombogenic coatings. As of June 30, 2008, the Company has four patents pending, one on a non-leaching anti-microbial coating, two on anti-microbial medical hydrogels for body cavities and one on anti-thrombogenic and cell anti-mitosis technology. The Company was granted a patent on water-based lubricious coatings for medical

applications and in industrial condensation control in fiscal 2006.

HYDROMER® Coatings: Lubricious / Anti-microbial / Anti-thrombogenic / Cell anti-mitosis / Radio-opaque

When treated with a Hydromer lubricious polymer, a medical device becomes very slippery when wet, allowing for easy insertion into any orifice of the body, in penetration of the skin or for device-on-device (i.e. guidewire-catheter) use. Hydromer coatings are permanently bonded to the device unlike silicone lubricants, which must be applied after each use and are often left behind in the bloodstream and body cavities. Hydromer coatings can also be coated on complex surfaces and on the inside walls of devices, unlike the treatments by major competition. The Company believes that the polymer-water interface of its Hydromer coatings provides surface lubricity superior to the quality of other currently marketed silicone-based lubricants to treat medical devices.

Drugs and other substances can be readily incorporated into Hydromer, both in a bound and unbounded fashion, allowing for controlled release from the device for therapeutic purposes or the creation of permanent biocidal or biostatic surfaces (anti-microbial coatings).

Certain Hydromer coatings have been shown in numerous studies to reduce the risk of thrombogenesis or clot formation on devices. Such anti-thrombogenic coatings can be applied to cardiovascular stents, oxygenators, blood warmers, hemodialysis equipment, intravenous catheters and much more.

In 2006, the Company filed for a patent on its cell anti-mitosis coatings which decreases cell proliferation and cell adhesion and prevents platelet adhesion. This coating appears to have the attributes needed for a cardiovascular stent to combat restenosis and late stage thrombosis. In vitro (lab) studies have yielded positive results and in vivo (pre-clinical) studies are planned.

The Company was awarded a patent on its radio-opaque coatings in 2003. Hydromer's radio-opaque coatings enhances the visibility of a variety of substrates, including, but not limited to, stents and PTCA balloons.

Option and License Agreements

A portion of the Company's revenues is derived from option and license agreements (see “Patents and Trademarks” section). Option agreements provide customers the right for a finite period of time (i) to use the Hydromer process to determine whether the customer's products lend themselves to treatment with the process and (ii) to test market such products. The option agreements have also given the customers the right to subsequently enter into a license agreement with the Company and to the market product(s) treated with Hydromer, which typically provides the Company an initial flat fee, followed by periodic royalty payments based on sales.

The Company has previously reported license agreements in effect and expiring relating to applications of the Hydromer as follows: Annual Report on Form 10-K for the fiscal years ended June 30, 1983 through 1996 and Form 10-KSB for fiscal years ended 1997 through 2007.

As of June 30, 2008, the Company has license agreements with eight companies covering the application of Hydromer coatings to the following devices: enteral feeding products, guidewires, certain urological devices, infusion microcatheters, central venous catheters, guiding and umbilical catheters, angioplasty balloon catheters, embolization delivery devices, inter/intra-ocular lenses and biliary and pancreatic stents. The Company is actively seeking new licensing opportunities.

Licensee/Application

Ay Tibbi Cihazlar - certain urological devices

Applied Medical - certain urological and vascular devices

Corneal, Ltd. – inter-ocular lenses

Gallini - certain urological devices

MXM – intra-ocular lens inserter systems

Nemed - inter-ocular lenses

Tyco International / Kendall HealthCare Products - certain urological devices and enteral feeding systems

Undisclosed - neurovascular and cardiovascular catheters

Supply and Support Agreements

In order to avail our customers to a continued material source or of technical support on our products, certain supply or support agreements may be entered into. Depending on the specific requirements of each agreement, the Company would provide continued support in terms of product availability or technical know-how, some including the escrow of formulas or data with independent agents. The Company currently has supply and/or support agreements with Ay Tibbi Cihazlar, Cordis Corporation, CR Bard, NeoMetrics, Inc and others.

Hydrogels, Drug Delivery, Wound Dressing

Applications of the Company’s Hydrogels are being developed for wound care, implants, drug delivery, burn care, conductive hydrogel electrodes, ultrasonic couplants and cosmetic uses for several customers. The Company is also identifying strategic partners to offer hydrogel coating services to clients who do not have rolled goods coating capability and to license Hydrogel technology for cosmetic and medical use, including drug release.

The Company's hydrogel technology offers biocompatibility, flexibility, and ease of use and processing. It also allows for the stabilization of biomolecules, cell cultures, drugs and other active substances without potentially damaging external energy sources. It is absorbent, inherently self-adhesive but peels away cleanly and is naturally soothing. Other than our bio-adhesives and medical coatings, which are one part systems, to form the gel entails simply to mix the two parts together - no heat, no chemical cross linkers nor expensive high energy processing is required. Many competitive technologies are much more process intensive and require external energy to crosslink. The Company believes these products are synergistic to our existing hydrogel technologies, and offer further opportunities in electrodes and internal and topical actives delivery. The Company has a pilot coating machine to facilitate the commercialization of its hydrogel technologies. The Company is exploring other medical and dental as well as cosmetic applications for this technology.

Aquadapt® is the Company's hydrophilic polyurethane foam technology. The Company has 510K notices to the FDA for medical use applications in the U.S. The Company also has a patent on its chitosan-PVP hydrogel technology as well as patents granted in 2000 and 2002 on polyaldehyde hydrogels.

OEM Medical Devices

Through its ISO 13485:2003 certified and FDA registered Biosearch Medical Products subsidiary, the Company offers 510K/CE marked medical devices. The current product portfolio includes: bipolar coagulation probes; placement catheters, biliary stents; jejunal and enteral feeding accessories; guidewires; biofeedback devices for fecal and urinary incontinence; and other endoscopic accessories. The Company also contract manufactures products for several large multi-national marketers of medical devices on an OEM basis. Under current development are umbilical vessel and CVC/dialysis catheters.

HYDROMER® Coating Services

The acquisition of BMPI allowed for the Company to realize another venue of revenues: Coating Services. Utilizing the acquired medical device manufacturing know how and by applying its coatings technologies, the Company began offering coating services, in which the Company coats third party devices with its Hydromer coatings. The Company's knowledge in coatings technologies allows it to coat various types of material, such as silicone, stainless steel, Pebax and polypropylene cost effectively, whereas some of the competition is unable to. Global clients are using this service in the urology, cardiology and neurovascular markets.

The Company continues to expand its activity in coating services and is actively seeking new opportunities to provide contract development, coating and manufacturing services to the medical, commercial and personal care industry, utilizing its Hydromer and Anti-Fog coating technology and expertise. The Company further continues to believe that these services will enable a broader range of customers to use our materials in market on accelerated timelines in a more cost effective manner.

R&D and Engineering Services

The medical device market continues to undergo a shift toward consolidation by very large multi-national players with small, entrepreneurial start-up companies looking to exploit niche opportunities or unique device designs. The Company's experience and knowledge can significantly speed development, assessment and market readiness for our clients, large and small, through its research and development and engineering services.

For example, for medical devices such as coronary stents and brain catheters, the Company can develop the coatings, including drug eluting coatings, establish the manufacturing and QA protocols, design and build the coating equipment, start up scale prototype production and eventually transfer the process assisting the customer in the transition.

The Company believes that offering prototyping, process development and small-medium scale coating/ manufacturing services is fundamental to the expansion of the Hydromer coatings business, and a strategic imperative. The Company will endeavor to become a "one stop" supplier of high performance coatings and services.

The Company also has anti-microbial testing capabilities in-house to perform crucial first developments on the performance of colonization control medical coatings, cosmetic intermediates and mastitis control products in the T-HEXX Animal Healthcare division (see Veterinary Sciences).

INDUSTRIAL/COMMERCIAL

Hydromer Anti-Fog/Condensation Control is an optical coating which prevents the accumulation of vision-obscuring condensation under high humidity conditions. The Company is selling this material to manufacturers of greenhouse panels, refrigerator freezer doors, industrial and medical safety and swim goggles, aircraft windows, automotive headlight assemblies and gauge and meter manufacturers in the U.S. and internationally, including China.

The Company also offers a Sea-Slide® coating that reduces friction between hull and water, and can be used over most anti-fouling paints. Independent testing has confirmed that this technology significantly improves fuel economy and the hull speed of watercraft. Sea-Slide products are marketed through HammerHead Products, Inc., via an exclusive distribution agreement.

COSMETICS

The Aquamere® series of the Company's cosmetic intermediaries are sold to major cosmetic companies worldwide for use in hair dyes, hair conditioners, mascaras, eye shadows, sunscreens and body lotions. They are currently in test for use in shampoos, hair styling aids, OTC dermal drug delivery and topical disinfectants. The Aquamere series of cosmetic polymer solutions, introduced in 1988, are both aqueous and hydro-alcoholic based systems. They are also offered with cationic and silicone grafted modifications. Formulations have also been developed internally utilizing this technology and are being offered for sale as turnkey products to smaller marketers of personal care products.

The Company's Dermaseal® line, a patented film-forming hydrogel technology, is currently being sold to major cosmetic companies as a base for foundations and other skin care products. It is also being tested for use in broader skin care, cosmetic and OTC drug delivery. Dermaseal is the registered trademark for barrier film compositions, patented in fiscal 2000 along with the method for preventing contact dermatitis. Clinical testing has demonstrated that these compositions protect the user from the effects of contact with poison ivy, oak or sumac plant allergens. Technical testing has also demonstrated protection from latex proteins, nickel and other contact allergens.

In 2006, the Company added a unique anti-microbial polymer to its product line. When used for beauty cosmetics, contamination and infections can be reduced.

Changes in the regulatory environment, including that of the European requirements of REACH: Registration, Evaluation and Authorisation of Chemicals, can adversely impact the marketability of existing cosmetics and other products. It is the Company's intention to meet any changes to regulatory requirements, including that of reformulating where necessary.

VETERINARY SCIENCES

In Fiscal Year 1999, the Company's polymer technology was used to launch the Company's entry into the Animal Health field to combat clinical and sub-clinical mastitis, a problem that costs U.S. Dairy farmers an estimated $2 billion per year. Marketed under the T-HEXX® brand, initially through U.S. licensees, the T-HEXX Barrier Dips and Sprays offer dairy farmers exceptional value and unsurpassed protection as the first no-drip and water resistant barrier products on the market preventing environmental water containing mastitis-causing organisms, including mycoplasma, from reaching the teat surface. The Company has received three patents for its unique barrier teat dip compositions with an application on a fourth patent pending.

The annual U.S. market for barrier teat dips is estimated to be $100-130 million at the farm level. The T-HEXX Barrier products contain protocol-proven active ingredients that kill mastitis-causing bacteria within 30 seconds of contact while continuing to remain active up to 12 hours later. T-HEXX Barriers are superior performers in its niche market, while priced comparably or less than barrier dip products manufactured by the leading sanitary chemical companies in the world. Our products are compatible with existing mechanical equipment and milking procedures and most importantly, are easily removed using traditional pre-milking methods. Based on field tests, our product has been demonstrated to stay on the cow teat better than the competition, protecting the cow during the complete 8-12 hour milking cycle.

In fiscal 2002, the Company launched a complementary product, T-HEXX® Dry External Teat Protection Sealant, to protect cows during the non-lactation ("dry cow") period. T-HEXX Dry is used as a non-irritating low-cost sealant during the dry-off and the critical pre-calving period where it is estimated that over 50% of new mastitis cases are believed to start. T-HEXX Dry is the first dry cow dip product with an anti-microbial that remains on the teat for 3-7 days. Clinical studies show that T-HEXX Dry is impervious to National Mastitis Council (NMC) recognized mastitis-causing organisms for seven days, yet is comparably priced to existing dry cow teat sealants that does not offer such protection. Our product is suggested to be used on cows just prior to their release to the dry cow pen, in conjunction with existing antibiotic therapy or internal teat sealants. In fiscal 2004, two customers launched our Dry product under their private-label name, reflecting the strength of our product.

Patent pending and under development, for a customer, is a teat plug, which when launched, would allow the Company (directly and/or indirectly) to provide complete protection against mastitis for the entire bovine working cycle.

The Company has invested significantly in clinical research, patents, promotion, vendor partnerships and advertising via print media, trade shows and the Internet to support this business and continues to do so. Legal action was initiated against a former licensee and other parties in fiscal 2004 on the basis of infringement of the Company's patented technology. Settlement was made in early calendar 2006 with all parties, authenticating both the validity of the technology as well as ownership of such.

Products

Coating solutions for use on medical devices, cosmetic intermediaries, hydrogels and teat barrier dips/sprays are manufactured and sold by the Company to its licensees and others. The Company is selling anti-fog solutions to manufacturers of greenhouse panels, refrigerator freezer doors, swim goggles, industrial safety equipment, aircraft windows and meter covers, both in the U.S. and foreign countries. The Company also sells OEM medical devices through its Biosearch Medical Products subsidiary.

The Company has no long-term contracts with any of its suppliers and believes that there are adequate alternative sources of supply available for all raw materials that it currently uses.

Dependence Upon Customers

The Company derives its revenues from two primary business segments: (1) polymer research and the products derived there from, and (2) the sales of medical products. During the fiscal year ended June 30, 2008 and June 30, 2007, Johnson & Johnson's Cordis Division was a significant customer to the Company. For the fiscal year ended June 30, 2007, Cook Endoscopy, formerly Wilson Cook Medical, Inc., was also a major customer.

Product sales and/or royalty payments and support fees from these customers accounted for 24% and 28% of the Company's total revenues for the years ended June 30, 2008 and June 30, 2007, respectively.

Potential Applications

The Company continues to explore other applications of the complexing capabilities of polymeric substances, such as anti-microbial agents. The Company currently is working on further applications of its patented technologies to existing products of other companies, including cosmetics, wound dressings, personal care and a wide variety of medical devices, including vascular stents. Some of these products and applications are in the preliminary development stage and are subject to substantial further development before their feasibility can be verified.

On the basis of its market analyses, as well as laboratory and in-vitro testing of certain applications of Hydromer, the Company believes that Hydromer's potential product applications, classified with reference to salient Hydromer

characteristics, are as follows:

1. Low Coefficient of Friction. Hydromer is a hydrophilic coating which when contacted by water becomes extremely lubricious. The Company believes that this unique feature would prove beneficial to any medical device that is inserted into the body. Medical products that would so benefit include:

urinary products - urethral catheters, stents and urinary drainage systems;

rectal products - enemas, rectal tubes, examination gloves and proctoscopy devices (disposable);

nasal/oral products - suction catheters, oxygen catheters and endotracheal tubes;

cardiovascular and related products - grafts, cardiac assist catheters heart-lung tubing, stents.

2. Ability to be Complexed with Other Functional Chemicals. The Hydromer hydrophilic polymer coating can be complexed with other chemicals. For example, Hydromer coating complexed with iodine forms an effective anti-microbial barrier. The Company believes that this unique feature would lend itself to application on a wide variety of currently marketed medical products, including vascular stents, Foley catheters, wound drains, wart and corn dressings, burn dressings, intravenous catheters, surgical dressings and adhesive bandages. One of the Company's recent patents in the coating area, issued in April 2000, involves the covalent bonding of infection resistant materials into the coating, providing a non-leaching, anti-infective surface. The Company was also granted a patent in July 2003 for covalently bonded radio-opaque polymeric compositions to improve the radio-opacity of materials without needing high solid loading, metal plating or ion implantation for applications like stents and vascular catheters.

3. Cross-link Density Can be Controlled. The Hydromer hydrophilic polymer coating, through controlled cross-linking, has been further developed into a special anti-fog coating. Such a coating is (a) resistant to fogging under a wide range of temperature/humidity conditions; (b) transparent and has heat/light stability; (c) long lasting, i.e., will not chip or peel and offers more scratch resistance than do most commercial plastics; (d) inert to most commercial glass cleaners; (e) less prone to static dirt pickup; and (f) applicable by dip, spray or roll coating. This anti-fog product has use on greenhouse panels, refrigerator freezer doors, sports goggles, windows, mirrors and other products, either by direct application or by coating of an adhesive backed film.

Research and Development

The Company's research and development activities presently are, and during the next year are expected to be devoted primarily to the development and enhancement of the products described above and to the design and development of new products, either for its own account, jointly with another company or strictly as a sub-contractor. The Company sponsors all of such activities from its own internal funding or through charges to the contracting company. The major portion of R&D expenses was applied toward salaries and other expenses of personnel employed on a regular basis in such work.

Competition

The Company considers the most significant competitive factors in its market for its patented coatings to be product capability and performance (including reliability and ease of use), in addition to price and terms of purchase.

The Company currently owns seventeen process and applications patents for Hydromer coatings (see "Patents and Trademarks"). Although the medical products market is highly competitive, the Company does not believe that there is any other product available which performs functions significantly better in terms of lubricity, complexing capabilities, durability and cost.

While management believes the Company has a strong position in the market for medical device coatings in which it competes, and that its hydrophilic foam, anti-fog coatings and hydrogel products are technologically superior to other products in the market, there can be no assurance that alternatives, with similar properties and applications, could not be developed by other companies. The Company is aware that there are other similar technologies available and/or being developed by others. The industry in which the Company competes is characterized by rapid technological advances and includes competitors that possess significantly greater financial resources and research and manufacturing capabilities, larger marketing and sales staffs and longer established relationships with customers than the Company does, at present or will for the foreseeable future.

Marketing

The Company markets its products and services through five principal means:

1. Commercialization of its existing technologies: The Company intends to expand its efforts to market its current technology to the medical, industrial, personal care and veterinary sciences markets. The Company has expanded its capabilities to prototype and manufacture for customers to demonstrate the value of Hydromer technology. The Company will also seek opportunities to apply its technology in new applications where the technology will offer a benefit. Further, the Company will seek customers for technologies that have been developed but are not currently generating revenue, capitalize on the technology that has been created through its R&D efforts and to expand the application of current technologies.

2. Sale of Development Services: The Company intends to continue moving its effort away from straight technology licensing and toward contract product development, contract manufacturing and coating services (see “5. Coating Services”). The Company has significant expertise in polymer development and applications. By exhibiting at an increased number of trade shows in the medical device fields, the Company expects to generate interest in its technology and products, with a view toward acting as an outside product development arm and development supplier for companies in these fields.

3. Joint Development: The Company will continue to seek joint development programs, co-marketing programs and other business arrangements with potential partners.

4. Licensing: The Company will continue its endeavors to license its technology to current market leaders in the medical device, pharmaceutical and other fields, whereby the Company will grant exclusive or non-exclusive rights for the Hydromer coating treatment of existing or new products, and the development of specific products utilizing its foam and hydrogel technology under its patents. In return, the Company generally would earn royalties based on sales of such treated or new products. Such licenses will usually be very narrow. The activities leading to the consummation of a license agreement normally are lengthy and require establishing a scientific dialogue with potential customers, treating samples supplied by that customer with Hydromer coatings, determining if the treatment is feasible and cost effective, testing the coated products in a laboratory and then negotiating a mutually acceptable option agreement. An option fee may be paid by the customer which would give the customer exclusive rights to use the Hydromer treatment on the specified product for a defined time period. During such period, the optionee can test market the coated product and/or determine its ability to treat the product in its own manufacturing process. If the customer determines that the subject product should be treated with Hydromer coating on a commercial basis, it may either perform the Hydromer coating treatment itself under a license agreement with the Company, through the Company's Contract Coating unit or it may have a third party perform the Hydromer coating treatment.

5. Coating Services: The Company will serve the customer who needs products coated with lubricious or anti-fog coatings in production runs that are economically feasible without substantial investments in fixturing and automation. Typically this would be prototypes or runs of low volume, high value products. Higher volume products could be accommodated if they were physically small and did not require extensive fixturing or because for technical reasons they could not be automated and were of high enough value to warrant the added cost. The Company will pursue large volume projects if they fall within a technical area where the Company has particular expertise.

Business segments in Coating Services which are of particular interest include medical devices (catheters and guidewires) and transparencies (lenses, face shields). Contacts will be pursued in conjunction with marketing of Hydromer coatings, at trade shows, in mass mailings and advertisement in appropriate trade publications. The Company is continually upgrading its advertising copy and promotional literature as needed to graphically highlight the properties and advantages of its technologies.

The same marketing tools (traditional means of tradeshow contacts, mass mailings, advertising, promotional activities, etc.) as well as alternative methods (such as the Internet) are used by the Company in its focus of expanding sales globally to the medical, commercial, personal care and veterinary sciences community.

Patents and Trademarks

Management believes that the protection afforded by the Hydromer patents will be a significant factor in the Company's ability to market its products. Anticipating patent expiration, the Company has focused on licensing and developing products based upon its newer technologies.

As an example, one U.S. patent that contributed approximately $2,100,000 in annual royalties from four licensees expired on May 6, 2005. Although the Company had a new patent on superior technology available, the Company was successful in reaching supply and/or support agreements with the four former licensees recovering an approximate $1,500,000 annually. These new supply/support agreements have varying terms and cancellation provisions.

It is the Company’s practice to replace any discontinuances of income stream with other sources, including new product revenues, new service revenues and other license or contract revenues.

As of June 30, 2008, the Company has 17 U.S. patents, four U.S. applications and various foreign counterparts. The Company’s existing patents covers hydrophilic coatings and foams, hydrophilic polymer blends, anti-bacterial medical and cosmetic materials, non-leaching biostatic coatings, barrier film and barrier teat dip compositions and its method for preventing contact dermatitis, permanent anti-fogs, Chitosan gels and others.

One new patent was awarded to the Company during the fiscal year ended June 30, 2006. This patent covers the application of water based surface modifications for use in lubricity, anti-microbial, drug release, hydrogel, radio-opaque, animal care and unique anti-fog/anti-frost applications.

The Company owns the registered trademarks “Aquadapt”, “Aquamere”, “Aquatrix”, “Dermaseal”, "Hydromer", “Sea-Slide” a
“T-HEXX” in the United States and other countries.

Employees

As of June 30, 2008, the Company and its subsidiary had seventy-three active full-time employees. The Chief Executive Officer is Manfred F. Dyck, who is also Chairman of the Board. The Company does not have a collective bargaining agreement with any of its employees and considers its relationship with its employees to be very good.

Government Regulations

The uses of the Company's medical, agricultural and cosmetic products come under the jurisdiction of the FDA, as well as other federal, state and local agencies, and similar agencies in other countries.

In connection with the Company's license agreements, it is generally the obligation of the licensee to conform to any required FDA pre-market notification or other regulations. To the Company's knowledge, all such licensees who are marketing FDA regulated licensed products are in such compliance. The Company may in the future desire to market additional applications of Hydromer to existing products, or products introduced by it, which may be subject to such FDA approval procedures as proof of safety and effectiveness of the applications or products, or adherence to prescribed design standards. There can be no assurance that such approvals would be forthcoming or of compliance with such standards. Any such failure to obtain approvals or non-compliance might have a significant adverse effect

on the Company. However, the Company intends to make every effort to obtain all necessary approvals and to comply with such standards, and in the case of its licensed applications, to require the licensees to obtain such approvals.

The Company manufactures medical products through its Biosearch Medical Products subsidiary ("Biosearch"), whose activities come under the jurisdiction of the FDA. It is the policy of the Company to use the FDA regulations as guidelines during manufacturing of Hydromer coatings.

The Company is also subject to federal and state regulations dealing with occupational health and safety and environmental protection. It is the policy of the Company to comply with these regulations and be responsive to its obligations to its employees and the public.

The Company's electronically filed reports are available at www.sec.gov.

Executive Officers

The executive officers of the Company are as follows:

Name	Position with Company	Age as of 31-Aug-08
Manfred F. Dyck -	Chairman of the Board, Chief Executive Officer and President	73
Martin C. Dyck -	Executive Vice-President, Operations and President Biosearch Medical Products subsidiary	46
Rainer Gruening -	Vice-President, Intellectual Property	65
John Konar –	Vice-President, Quality Assurance and Director of Human Resources	59
Robert Y. Lee –	Vice-President, Finance, Chief Financial Officer and Treasurer	42
Robert J. Moravsik -	Senior Vice-President, General Counsel and Secretary	65

Manfred F. Dyck has been Chairman of the Board of the Company since June 1983 and a Director of the Company since its inception. Mr. Dyck served as Chief Executive Officer of the Company from its inception until October 1986, and as of August 1989, reassumed the duties of Chief Executive Officer. Mr. Dyck was President of Biosearch Medical Products Inc. from 1975 until 1998 and a Director of Biosearch Medical Products Inc. from 1975 until 2000.

Martin C. Dyck has been Executive Vice-President, Operations since June of 2001. He was previously Vice-President of Operations since February 2000 when the Company purchased Biosearch Medical Products. Mr. Dyck has been President of Biosearch since 1998, a position which he still maintains. Mr. Dyck has been employed by Biosearch since 1986 and has served in various capacities including Director of New Product Development, where he developed several new medical devices and authored six FDA 510(k) pre-market submissions. After becoming President of Biosearch in 1998, Mr. Dyck changed the focus of Biosearch to become a contract medical coatings service provider using proprietary technology unique to Biosearch.

Rainer Gruening joined the Company as Vice-President of Research and Development in June 2001, and in May 2006 became VP of Intellectual Property. With a Ph.D. in Chemistry from the University of Marburg in Germany, his background includes service with Bayer AG/Deutsche Solvay Werke, Troy, G+G International and AM Cosmetics in areas including international regulatory affairs, coatings technology and anti-microbials. Mr. Gruening authored and/or co-authored 17 patents and 35 publications on synthesis and formulation of anti-microbials for paint and coatings, cosmetics, personal care products, medical coatings, adhesives, marine anti-fouling and metal working fluids and developed dossiers, safety assessments and GMP documentation. Additionally, he implemented FDA/CTFA, European and Japanese compliance requirements for raw materials and formulation restrictions.

John Konar has been the Vice-President of Quality Assurance since February 2004 and Director of Human Resources since February 2000. Mr. Konar joined Biosearch in 1986 and served as the Director of Human Resources with

Biosearch from 1996 until its acquisition by the Company in 2000, when he then assumed responsibilities for both companies. He also served, with Biosearch, as the Director of Sales from 1996 until 2000, Director of QA from 1998 until 2004 when promoted to VP of QA, and Director of Manufacturing from 2000 to 2001.

Robert Y. Lee joined the Company in the capacities of Vice-President of Finance, Chief Financial Officer and Treasurer in June 2001. He earned a MBA in Finance and International Business, and a Bachelors of Science in Accounting and Information Systems, both from New York University's Stern School of Business. His professional experience includes tenure with the New York office of Coopers & Lybrand (currently Pricewaterhouse Coopers) in their Emerging Business Group, the Bristol Myers Squibb Internal Auditing group, ASARCO's Southern Peru Copper Corporation, now Southern Copper Corporation, part of Grupo Mexico, and Citigroup.

Robert J. Moravsik has been Senior Vice-President, General Counsel and Secretary since February 2000. He holds a B.S. in Aerospace Engineering, an M.S. in Computer Science and a Doctorate in Law. He was Vice-President and General Counsel since April 1998. He also serves in the same capacity for Biosearch Medical Products, Inc. an affiliated company since 1987. Prior to that, he was Vice-President and General Counsel to Fisher Stevens, Inc., a subsidiary of the Bureau of National Affairs. He is an attorney admitted in the state of New Jersey and New York.

Item 2. PROPERTIES

In June 1998, the Company purchased the building and land at 35 Industrial Parkway, Branchburg, NJ from Biosearch Medical Products, then an affiliated party. The facility, currently its sole facility, is secured by mortgages through banks. See the financial statements included herein for the terms of the agreements.

In 2002, the Company completed its 10,400 square feet expansion at its primary location of 35 Industrial Parkway. This allowed the Company to consolidate certain manufacturing and quality assurance functions operations formerly located on leased space.

The expanded facility will be adequate for the Company’s operations for the foreseeable future.

ItemLEGAL PROCEEDINGS
3.

Not applicable.

ItemSUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
4.

Not applicable.

PART II

ItemMARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
5.

Prior to January 9, 1986, the Company's Common Stock was traded in the over-the-counter market on the National Association of Securities Dealer's Automated Quotation System (NASDAQ) under the symbol "HYDI". Subsequent to January 9, 1986, reporting of trading was transferred to the National Daily Quotation Service (commonly known as the "Pink Sheets"). For the past twenty-one years, trading in the Company's stock has been limited.

On February 13, 2002 the Company became a listed security on the Boston Stock Exchange ("BSE") under the trading symbol "HDO" until the BSE ceased trading activities in 2007. Hydromer remains listed as "HYDI" on the OTC reporting services.

The Company's common stock traded at prices ranging between $0.51 and $2.25 in the fiscal year 2008 and between $0.70 and $2.60 in the fiscal year 2007. These prices may not include retail mark-ups or mark-downs or any commission to the broker dealer.

The approximate number of holders of record of the Common Stock on September 1, 2008 was 230. There are approximately 600 individual shareholders of the common stock.

ItemMANAGEMENT DISCUSSION AND ANALYSIS
6.

The below discussion analyzes major factors and trends regarding the results of operations and the financial condition of the Company as of June 30, 2008, and its results of operations for the prior fiscal period. It should be read in conjunction with the Financial Statements and Notes thereto.

Revenues for the year ended June 30, 2008 were $8,010,324 as compared to $8,099,485 for the same period last year, a decrease of $89,161 (1.1%).

Product sales and services revenues were $6,422,557 for the 2008 fiscal year as compared to $6,462,823 the prior fiscal year, a 0.6% decrease or $40,266.

License royalties and contract payments were $1,587,767 in fiscal 2008, down 3.0% from fiscal 2007's results of $1,636,662.

Management Comment: Continued sales growth in coating services and the T-HEXX® Animal Health business line as offset by temporary lower sales in OEM medical device sales reflected a flat product and services revenues line over the years.

Total Expenses for the year ended June 30, 2008 were $7,832,858, an improvement of 4.5% or $373,251 lower than the 2007 fiscal year results of $8,206,109.

Cost of Goods Sold was $3,044,157 for fiscal 2008 as compared to $3,138,820 for fiscal 2007. Operating expenses were $4,622,893 and $4,958,433, for the years ended June 30, 2008 and 2007, respectively. Stock based compensation, a non-cash expense, added $55,400 to expenses in fiscal 2007. There was a Provision for Income Taxes of $13,255 in fiscal 2008 compared with a Benefit from Income Taxes of $101,002 in fiscal 2007.

Management Comment: For fiscal 2008, there was a product mix change in revenue lines: higher service revenues and an increase in sales from the higher profit margin T-HEXX product line, as compared with fiscal 2007 which included higher lower-margin OEM product sales.

A reduction in staffing, primarily in Research and Development, resulted in lower Operating Expenses for fiscal 2008. The Company's investment into Research and Development (primarily salaries and benefits) was $790,006 and $1,073,879, or 17.1% and 21.7% of total Operating Expenses, for the years ended June 30, 2008 and 2007, respectively, lower due to normal attrition (resignation and retirement) and job eliminations (due to changes to R&D requirements / scope / direction). In addition, continued investment into the patent estate, added $190,765 and $170,599 in amortization expense to operating expenses for the years ended June 30, 2008 and 2007, respectively. In the fiscal 2008, there was also a $126,420 charge-off of previously paid patent expenses which management determined to be impaired as the related discounted future cash flows was deemed to be below the current carrying value. These patents, though, will continue to be maintained and supported.

The Company accounts for stock and stock options issued for services and compensation to employees under Statement of Financial Accounting Standards ("SFAS") No. 123(r). For non-employees, the fair market value of the Company's stock on the date of stock issuance or option/grant is used. The Company determined the fair market value of the options issued under the Black-Scholes Pricing Model. Under the provisions of SFAS No. 123(r), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). For the fiscal year ended June 30, 2007, a non-cash expense of $55,400 was recognized for Stock-Based Compensation. For the year ended June 30, 2008, a cash expense of $9,000 was realized in lieu of granting stock options subject to the accounting treatment of SFAS No. 123(r).

A provision for Income Taxes of $13,255 in fiscal 2008 is compared with a Income Tax Benefit of $101,002 for the year ended June 30, 2007. The benefit of the net R&D tax credits recorded (after valuation allowances) reduced the current tax provision.

Net Income of $177,466 is reported for the 2008 fiscal year compared with a Net Loss of $106,624 for the 2007 fiscal year.

Net Income of $177,466 or $0.04 per share is reported for fiscal 2008 as compared with a Net Loss of $106,624 or $0.02 per share for fiscal 2007.

Management Comment: Although revenues were essentially flat, the product mix change along with reduced operating expenses resulted in the improvement to the net results.

Liquidity and Capital Resources

Working Capital as of June 30, 2008 was $833,477, up from $701,205 the prior year.

Working Capital generated from operations (net income), with add-backs for depreciation and amortization expense and non-cash charges (write-down of patent costs), during the 2008 fiscal year, was used to fund capital expenditures and the patent estate in addition to towards mortgage obligations.

Management Comment: A return to a solid year of results after the rebuilding year of fiscal 2006 and the near break-even year of fiscal 2007 (which included a non-cash expense of $55,400) reflects an improved working capital position. Re-investment back into the Company, primarily in terms of R&D (mostly personnel costs on development projects to which a majority of the expected revenue returns are in future years) and to our patent estate, along with capital expenditures, all to support future growth of our business, totaled $1,225,909 during the fiscal year ended June 30, 2008. Scheduled reduction of long-term debt was $215,401 and the paydown of the Line of Credit facility (short-term borrowings) used $224,123.

Item 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For information concerning this item, see pages F-1 through F-8 of the "Audited Financial Statements for the year ended June 30, 2008," which information is incorporated herein by reference.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 8a. DISCLOSURE CONTROLS AND PROCEDURES

Changes in Internal Control over Financial Reporting

There were no changes to our Company's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on our assessment, we believe that, as of June 30, 2008, the Company's internal control over financial reporting is effective based on those criteria.

There are two deficiencies, which are not required to be disclosed but to which management has elected to disclose, within the Company's internal control over financial reporting:

- Segregation of Duties (control deficiency)

Due to the size of the Company, there is a lack of a proper segregation of duties, including that of the Chief Financial Officer.

- Reporting Controls over Inventory (significant deficiency)

The Company lacks a perpetual inventory system to adequately account for inventory transactions and to report inventory, leading it to be reasonably possible that financial statements are misstated during interim periods. Full physical inventory counts are conducted at year-end allowing for any misstatement to be inconsequential.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation pursuant to rules promulgated by the Securities and Exchange Commission.

PART III

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information concerning this item, see "Item 1. Business - Executive Officers" and pages 3 through 11 in the Proxy Statement filed with respect to the 2008 Annual Meeting of Shareholders (the “Proxy Statement”), which information is incorporated herein by reference.

Item 10. EXECUTIVE COMPENSATION

For information concerning this item, see page 9 of the Proxy Statement, which information is incorporated herein by reference.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

For information concerning this item, see page 10 of the Proxy Statement, which information is incorporated herein by reference.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the past fiscal year, there have been no related party transactions.

PART IV

Item 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

The financial statements of the Company incorporated by reference in this Report are listed in the attached Index to the Financial Statements and Supplementary Data.

(a) 2. Financial Statement Schedules:

The financial statement schedules of the Company filed in this Report are listed in the attached Index to Financial Statements and Supplementary Data.

(a) 3. Exhibits (not included)

The exhibits required to be filed as part of this Report are listed in the attached Index to Exhibits.

(b) Current Reports on Form 8-K:

The Company filed five Form 8-K's during the year ended June 30, 2008. Each 8-K reported press releases issued by the Company: (1) Entering into 4.5 Year Coating Services Agreement, (2) Entering into a 5 Year Supply Agreement for Anti-Fog Coating, (3) Entering into a Supply and Support Agreement for Nelaton Catheter Coatings, (4) Entering into Coating Services Agreement on Stent Placement Catheters, and (5) Entering into a Royalty generating Coatings Supply agreement for Neurovascular and Cardiovascular catheters.

POWER OF ATTORNEY

The Company and each person whose signature appears below hereby appoint Manfred F. Dyck and Robert Y. Lee as attorneys-in-fact with full power of substitution, severally, to execute in the name and on behalf of the registrant and each such person, individually and in each capacity stated below, one or more amendments to the annual report which amendments may make such changes in the report as the attorney-in-fact acting deems appropriate and to file any such amendment to the report with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HYDROMER, INC.

/s/ Manfred F. Dyck Manfred F. Dyck	President, Principal Executive Officer, Chairman of the Board of Directors	August 23, 2006
/s/ Robert Y. Lee Robert Y. Lee	Chief Accounting Officer	August 23, 2006

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ Manfred F. Dyck Manfred F. Dyck	President, Principal Executive Officer, Chairman of the Board of Directors	August 23, 2006
/s/ Robert H. Bea Robert H. Bea	Director	August 23, 2006
/s/ Maxwell Borow Maxwell Borow, MD	Director	August 23, 2006
/s/ Ursula M. Dyck Ursula M. Dyck	Director	August 23, 2006
/s/ Dieter Heinemann Dieter Heinemann	Director	August 10, 2006

/s/ Klaus J.H. Meckeler Klaus J.H. Meckeler, MD	Director	August 23, 2006
/s/ Frederick L. Perl Frederick L. Perl, MD	Director	August 23, 2006
/s/ Michael F. Ryan Michael F. Ryan, PhD	Director	August 23, 2006

Hydromer, Inc. & Subsidiary

Consolidated Financial Statements

June 30, 2008 and 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Hydromer Inc. & Subsidiary

We have audited the accompanying consolidated balance sheets of Hydromer Inc. & Subsidiary as of June 30, 2008 and 2007, and the related statements of income, stockholders' equity, and cash flows for years then ended. Hydromer Inc. & Subsidiary's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hydromer Inc. & Subsidiary as of June 20, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Rosenberg Rich Baker Berman & Company

Bridgewater, New Jersey
September 22, 2008

Hydromer, Inc. & Subsidiary
Index to the Consolidated Financial Statements
June 30, 2008 and 2007

Hydromer, Inc. & Subsidiary
Consolidated Balance Sheets

	June 30, 2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 108,403	$ 146,338
Trade receivables less allowance for doubtful accounts of $79,790 and $62,044 as of June 30, 2008 and 2007, respectively	1,100,388	1,121,752
Inventory	1,022,660	956,711
Prepaid expenses	149,726	122,653
Deferred tax asset	8,976	8,976
Other	7,147	11,279
Total Current Assets	2,397,300	2,367,709
Property and equipment, net	3,339,270	3,295,992
Deferred tax asset, non-current	620,157	609,730
Intangible Assets, net	820,858	910,303
Total Assets	$ 7,177,585	$ 7,183,734
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 595,412	$ 537,338
Short-term borrowings	289,973	514,096
Accrued expenses	345,480	358,301
Current portion of Capital Leases	13,095	-
Current portion of deferred revenue	88,051	32,215
Current portion of mortgage payable	230,160	215,394
Income tax payable	1,652	9,160
Total Current Liabilities	1,563,823	1,666,504
Deferred tax liability	281,398	261,958
Long-term portion of Capital Leases	65,310	-
Long-term portion of deferred revenue	49,461	62,978
Long-term portion of mortgage payable	1,647,873	1,878,040
Total Liabilities	3,607,865	3,869,480
Contingencies		
Stockholders' Equity	-	-
Preferred stock – no par value, authorized 1,000,000 shares, no	-	-

shares issued and outstanding		
Common stock – no par value, authorized 15,000,000 shares; as of June 30, 2008, 4,783,235 shares issued and 4,772,318 shares outstanding; as of June 30, 2007, 4,698,825 shares issued and 4,687,908 shares outstanding	3,721,815	3,643,815
Contributed capital	633,150	633,150
Accumulated deficit	(779,105)	(956,571)
Treasury stock, 10,917 common shares at cost	(6,140)	(6,140)
Total Stockholders' Equity	3,569,720	3,314,254
Total Liabilities and Stockholders' Equity	$ 7,177,585	$ 7,183,734

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary
Consolidated Statements of Income

	Year Ended June 30, 2008	2007
Revenues		
Sale of products	$ 4,667,992	$ 4,937,790
Service revenues	1,754,565	1,525,033
Royalties and Contract Revenues	1,587,767	1,636,662
Total Revenues	8,010,324	8,099,485
Expenses		
Cost of Sales	3,044,157	3,138,820
Operating Expenses	4,622,893	4,958,433
Stock Based Compensation	-	55,400
Other Expenses, net	152,553	154,458
Provision for (Benefit from) Income Taxes	13,255	(101,002)
Total Expenses	7,832,858	8,206,109
Net Income (Loss)	$ 177,466	$ (106,624)
Earnings (Loss) Per Common Share	$ 0.04	$ (0.02)
Weighted Average Number of Common Shares Outstanding	4,748,699	4,655,280

There was no impact to earnings per share from dilutive securities in 2008 under the treasury stock method of computing dilutive earnings per share. For 2007, common stock equivalents were not included in computing diluted earnings per share as their effect would be anti-dilutive.

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary
Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Contributed Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total
Balance June 30, 2006	4,655,081	$3,639,315	$ 577,750	$ (849,947)	10,917	$ (6,140)	$3,360,978
Stock Based Compensation			55,400				55,400

Exercise of Stock Options	43,744	4,500					4,500
Net Loss				(106,624)			(106,624)
Balance June 30, 2007	4,698,825	$3,643,815	$ 633,150	$ (956,571)	10,917	$ (6,140)	$3,314,254
Exercise of Stock Options	54,410	18,000					18,000
Stock Subscription	30,000	60,000					60,000
Net Income				177,466			177,466
Balance June 30, 2008	4,783,235	$3,721,815	$ 633,150	$ (779,105)	10,917	$ (6,140)	$3,569,720

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary
Consolidated Statements of Cash Flows

	Year Ended June 30, 2008	2007
Cash Flows From Operating Activities:		
Net Income (Loss)	$ 177,466	$ (106,624)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	434,055	405,868
Impairment of Intangibles	126,420	-
Stock Based Compensation	-	55,400
Deferred income taxes	9,013	(111,404)
Changes in Assets and Liabilities		
Trade receivables	21,364	76,337
Inventory	(65,949)	31,375
Prepaid expenses	(29,278)	(2,012)
Other assets	6,337	228,669
Accounts payable and accrued liabilities	45,253	(113,414)
Deferred revenues	42,319	(126,924)
Income taxes payable	(7,508)	99,496
Net Cash Provided by (Used for) Operating Activities	759,492	436,767
Cash Flows From Investing Activities:		
Cash purchases of property and equipment	(208,801)	(154,788)
Cash payments on Patents and Trademarks	(227,102)	(230,640)
Net Cash Used for Investing Activities	(435,903)	(385,428)
Cash Flows From Financing Activities:		
Net (payments)/borrowings against Line of Credit	(224,123)	(142,159)
Repayment of long-term borrowings	(215,401)	(202,207)
Proceeds from the issuance of common stock	78,000	4,500
Net Cash Used for Financing Activities	(361,524)	(339,866)
Net Decrease in Cash and Cash Equivalents:	(37,935)	(288,527)
Cash and Cash Equivalents at Beginning of Period	146,338	434,865
Cash and Cash Equivalents at End of Period	$ 108,403	$ 146,338
Cash paid during the year for:		
Interest	$ 169,847	$ 191,004
Income taxes	$ 9,338	$ -

See notes to the consolidated financial statements

Hydromer, Inc. & Subsidiary
Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hydromer, Inc. & Subsidiary (the "Company") is a bio-polymer research and development company based in Branchburg, New Jersey. The Company develops polymer complexes for commercial markets in both the United States and abroad for the medical, cosmetics, veterinary sciences and industrial fields. The Company obtains patent rights on certain products from which royalty revenues are received. Its wholly owned subsidiary, Biosearch Medical Products, Inc., a U.S. based corporation, is an OEM manufacturer for various medical products companies as well as the manufacturer of its own line of endoscopic products sold to hospitals, domestically and internationally, through a network of dealers. The Company also offers R&D, engineering and contract coating services in its array of capabilities.

Principles of Consolidation

The consolidated financial statements include the accounts of Hydromer, Inc. and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term investments with original maturities of three months or less.

Short-Term Investments

Short-term investments consist of investments other than cash and cash equivalents with original maturities of greater than three months and less than one year. There were no short-term investments as of June 30, 2008 and June 30, 2007.

Accounts Receivables

Accounts receivable are uncollateralized, non-interest-bearing customer obligations due under normal trade terms requiring payment typically within 30 days from the invoice date, or in the case of royalties or contract payments (see Revenue Recognition), usually 45 days from the end of a calendar quarter. Trade accounts receivable are stated at the amount billed to the customer; royalties and contract revenues are estimated until reported by the licensee / contractual party. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the oldest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects the Company's best estimate of the amounts that may not be collected. This estimate is based on reviews of all balances in excess of 90 days past due from the invoice date. Based on this assessment of current credit worthiness, the Company estimates the portion, if any, of the balance that will not be collected. Management also considers the need for additional general reserves and reviews its valuation allowance on a quarterly basis.

Inventories

Inventories are valued at the lower of cost, determined by the first-in, first-out method, or market and include appropriate amounts of labor and overhead.

Depreciation

The cost of property and equipment, which includes a reasonable portion of labor costs for equipment built in-house, is depreciated on a straight-line method over the estimated useful lives of the assets: 5-10 years for machinery and equipment, 3-5 years for furniture and office equipment and 40 years for the building. When assets are retired or

otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Patents

Expenses associated with patents are prepaid and amortized over the expected life of the patent, typically 20 years. Prepaid expenses associated with patents which are not approved or abandoned are expensed in the period in which such patents are not approved or abandoned. Maintenance fees associated with existing patents are written off over 12 months. Amortization expense for the years ended June 30, 2008 and 2007 were $190,765 and $170,599, respectively.

Long-Lived Assets

The Company assesses long-lived assets for impairment as required under Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company reviews for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses these assets for impairment based on estimated future cash flows from these assets.

Under this criteria, for the year ended June 30, 2008, $126,420 of cumulated Patent costs were charged off.

Revenue Recognition
Revenues from product and services sales are recognized at the time of shipment or services rendered provided that collection of the resulting receivable is probable. Revenues from royalties are recognized upon the sale of certain products by licensees with whom the Company has licensing agreements. Contract Revenues, which includes payments from Option, Supply or Support agreements that are typically based on time frames, are recognized in the periods to which it pertains. Deferred revenues are recorded when agreements call for payment ahead of when the amounts are earned.

Shipping and Handling Charges
The Company includes costs of shipping and handling billed to customers in Revenues and the related expense of shipping and handling costs in Cost of Sales.

Advertising
Advertising costs are expensed as incurred except for tangible assets, such as printed advertising materials, which are expensed as consumed. Advertising expense was $16,804 and $22,939 for the years ended June 30, 2008 and 2007, respectively.

Research and Development
Research and development costs, primarily employee salaries and benefits, are charged to operations when incurred and are included in operating expenses. The amounts charged to expense for the years ended June 30, 2008 and 2007 were approximately $790,006 and $1,073,879, respectively.

Stock Based Compensation
The Company accounts for stock and stock options issued for services and compensation to employees under SFAS No. 123(r). For non-employees, the fair market value of the Company's stock on the date of stock issuance or option/grant is used. The Company determined the fair market value of the options issued under the Black-Scholes Pricing Model. Under the provisions of SFAS No. 123(r), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

F - 4

Income Taxes
Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of assets and liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future federal and state income taxes.

Earnings Per Share
Earnings per share, in accordance with the provisions of SFAS No. 128, Earnings Per Share, is computed by dividing net income by the weighted average number of common stock shares outstanding during the period.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification
Certain amounts previously reported have been reclassified to conform to the 2008 presentation.

---

2. CONCENTRATION OF CREDIT AND BUSINESS RISK

The Company is exposed to additional credit and business risks due to its concentration of activity with certain parties. For example, at times throughout the year, the Company may maintain certain bank accounts in excess of FDIC insured limits.

In addition, the Company provides credit in the normal course of business to customers. Ongoing credit evaluations of its customers are performed, and allowances for doubtful accounts are based on factors surrounding the credit risk of specific customers, historical trends and other information.

For the year ended June 30, 2008, the Company collected Contract Revenues totaling 15% of its total revenues from one customer, Cordis Neurovascular Systems. There was no outstanding accounts receivable from Cordis Neurovascular at June 30, 2008.

During the fiscal year ended June 30, 2007, Cordis Neurovascular Systems and Cook Endoscopy accounted for 15% and 13%, respectively, of total revenues. Accounts receivable from these customers accounted for 17% of total accounts receivable at June 30, 2007.

---

3. INVENTORY

Inventory consists of:

	June 30,	
	2008	2007
Finished goods	$ 349,581	$ 325,159
Work in process	277,847	182,092

Raw materials	395,232	449,460
	$ 1,022,660	$ 956,711

---

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30, 2008	2007
Land	$ 472,410	$ 472,410
Building	2,188,603	2,155,295
Machinery and equipment	4,188,868	4,022,393
Equipment under capital leases	87,120	-
Furniture and fixtures	552,143	551,842
	7,489,144	7,201,940
Less: Accumulated depreciation and amortization	(4,144,573)	(3,905,948)
Accumulated depreciation on capital leases	(5,301)	-
Property and Equipment, net	$ 3,339,270	$ 3,295,992

Depreciation expense, including that on assets under capitalized leases, charged to operations, was $243,928 and $236,269 for the years ended June 30, 2008 and 2007, respectively.

---

5. INTANGIBLE ASSETS

Intangible Assets are comprised of the following:

	June 30, 2008	2007
Patents	$ 1,240,177	$ 1,241,944
Trademarks	78,502	76,051
Less: Accumulated amortization	(497,821)	(407,692)
Intangible Assets, net	$ 820,858	$ 910,303

During the year ended June 30, 2008, $126,420 of Patent costs was deemed impaired and charged off to Operating Expenses as the discounted future cash flows relating to these patents were deemed below that of its carrying value. The Company continues to maintain and support these patents despite their carrying value having been written down.

Future amortization of the Intangible Assets, as of June 30, 2008, are as follows:

Year ending June 30,	
2009	$ 125,487
2010	76,503
2011	74,926
2012	73,020
2013	72,398
Thereafter	398,524
	$ 820,858

6. LONG-TERM DEBT AND CREDIT FACILITY

As of June 30, 2008, the Company's facility was financed by two ten-year mortgage notes: a $555,000 first Mortgage and a $1,990,000 second mortgage, bearing fixed interest rates of 6.52% and 6.38 %, respectively. These notes were secured by the real estate and improvements, and all rents from leases subsequently entered into, amortized with monthly payments. As of June 30, 2008, the book value of the real estate and improvements was $2,259,229. An appraisal was conducted in July 2008 reflected a market value of $4,250,000.

Both of the mortgages were refinanced in September 2008 (see Footnote 16. SUBSEQUENT EVENTS). The new borrowing is a twenty-five year $2,900,000 mortgage, bearing a five-year fixed interest rate of 6.75%, reset every five years at 2.75% over the then New York Federal Home Loan Bank 5/20 Amortizing Advance Rate. This note is secured by the real estate and improvements, and all rents from leases subsequently entered into, amortized with monthly payments.

As of June 30, 2008, the Company also had a revolving line of credit agreement, secured by all trade receivables and inventories, which allows borrowings of up to $525,000 as of June 30, 2008. The line bore interest, payable monthly at LIBOR plus 3.75%, which as of June 30, 2008 was 6.22%. This line matures on September 30, 2008, which would be repaid from the proceeds of the Company mortgage refinancing in September 2008 (see Footnote 16. SUBSEQUENT EVENTS). As of June 30, 2008 and 2007, $289,973 and $514,096, respectively, were outstanding on the line of credit.

Long-term debt is comprised of the following:

	June 30,	
	2008	2007
Mortgage note	$ 338,720	$ 390,075
Second Mortgage Loan	1,539,313	1,703,359
Less: Current Maturities	(230,160)	(215,394)
Long-term Debt, Net of Current Maturities	$ 1,647,873	$ 1,878,040

Maturities of the long-term debt are as follows:

Year ending June 30,	As of June 30, 2008
2009	$ 230,160
2010	245,601
2011	262,056
2012	279,439
2013	298,335
Thereafter	562,442
	$ 1,878,033

---

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value because of the short maturity of these instruments. The fair value of the Company's long-term debt approximates its carrying value as it is based on or about the current rates offered to the Company for debt of the same remaining maturities with similar collateral requirements.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

---

8. INCOME TAXES

The income tax provision (benefit) is comprised of the following:

	Federal	State	Total
Year Ended June 30, 2008			
Current	$ -	$ 4,160	$ 4,160
Deferred	(23,123)	32,218	9,095
	$ (23,123)	$ 36,378	$ 13,255
Year Ended June 30, 2007			
Current	$ -	$ 9,160	$ 9,160
Deferred	(138,962)	28,800	(110,162)
	$ (138,962)	$ 37,960	$ (101,002)

The Company's deferred tax asset and liability as presented in the Company's financial statements are comprised of the following temporary differences:

	June 30, 2008	2007
Deferred Tax Asset		
Net Operating Losses	$ 219,700	$ 307,306
Adjustment of Goodwill	196,069	196,069
Research & Development Credits	520,970	384,402
Valuation allowance	(307,606)	(269,071)
Total Deferred Tax Assets	629,133	618,706
Deferred Tax Liability		
Depreciation	(281,398)	(261,958)
Total Deferred Tax Liability	$ (281,398)	$ (261,958)

Deferred taxes are recognized for temporary differences between the bases of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (using accelerated depreciation methods for income tax purposes). The Company's adjustment to Goodwill in 2004 and 2006 created a

deferred tax asset, which although has an indefinite life, has been fully reserved for as realization of its benefit is unlikely.

The Company has net operating loss carry forwards of approximately $315,828 and $1,119,787 for Federal and State tax purposes respectively. These net operating loss carry forwards may be used to reduce federal and state taxable income and tax liabilities in future years and expire in various years through June 30, 2027 and June 30, 2015 for Federal and State tax purposes, respectively. In addition, the Company has Research and Development Tax Credits of approximately $370,149 and $150,822 for Federal and State tax purposes, respectively, which expires in various years through June 30, 2028 and June 30, 2015, respectively.

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to the income before income taxes. The primary differences result from providing for state income taxes, generation of allowable tax credits and from deducting certain expenses for financial statement purposes but not for federal income tax purposes.

A reconciliation between taxes computed at the federal statutory rate and the consolidated effective tax rate follows:

	June 30,	
	2008	2007
Federal statutory tax rate	34.0%	(34.0)%
State income tax - net of federal tax benefit	13.9	(22.0)
R & D credits	(71.6)	(18.2)
Adjustment in valuation allowance	20.2	20.5
Permanent and other differences	10.5	5.1
	7.0%	(48.6)%

9. STOCK OPTIONS AND AWARDS

On February 22, 2000 the Board of Directors approved an option plan that granted each director 2,000 options for each meeting attended, awarded at the annual meeting at the 5-day market price average.

Open options under this plan awarded to the Board of Directors are as follows:

Issuance Date	Options Issued	Exercise Price	Expiration Date	Options Exercised
Nov 19, 2003	52,000	$1.10	Nov 19, 2008	-
Nov 17, 2004	56,000	$2.10	Nov 17, 2009	-
Nov 16, 2005	62,000	$0.95	Nov 16, 2010	-
Nov 15, 2006	50,000	$1.18	Nov 15, 2011	-

There were no other stock option issuances during the 2007 fiscal year.

During the 2008 fiscal year, 30,000 five year options, at a $3.00 exercise price, were granted as part of a Stock Subscription.

A summary of activity under the plan for the years ending June 30, 2008 and 2007 are as follows:

	Common Stock Options Outstanding	
	Shares	Weighted Average Exercise Price
Balance, June 30, 2006	402,000	$ 1.04
Granted	50,000	1.18
Exercised	(70,000)	0.84
Canceled	(92,000)	1.05
Balance, June 30, 2007	290,000	$ 1.12
Granted	30,000	3.00
Exercised	(60,000)	0.45
Canceled	(10,000)	0.45
Balance, June 30, 2008	250,000	$ 1.53

Following is a summary of the status of options outstanding as of June 30, 2008:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ 0.95 - $1.45	164,000	2.1 years	$ 1.07	164,000	$ 1.07
$ 1.46 - $2.48	56,000	1.4 years	$ 2.10	56,000	$ 2.10
$ 2.49 - $3.00	30,000	4.1 years	$ 2.10	30,000	$ 3.00
	250,000	2.2 years	$ 1.53	250,000	$ 1.53

Stock Option Grants

The Company accounts for stock and stock options issued for services and compensation to employees under SFAS No. 123(r). For non-employees, the fair market value of the Company's stock on the date of stock issuance or option/grant is used. The Company determined the fair market value of the options issued under the Black-Scholes Pricing Model. Under the provisions of SFAS No. 123(r), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

The fair value of the options granted during fiscal 2007 were estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions for grants: dividend yield of 0%; expected volatility of 151%; risk-free interest rate of 6.0%; and expected life of 5 years.

---

10. RETIREMENT PLAN

The Company sponsors a qualified 401(k) plan covering substantially all full time employees under which eligible employees can defer a portion of their annual compensation. The Company determines annually, the amount of matching contributions, which previously was 25% on 6% of the employees' salary. There were no Company matching contribution made to the plan during the fiscal years ended June 30, 2007 or June 30, 2008.

---

11. LEASES

The Company acquired equipment under a long-term lease. For financial reporting purposes, the present value of the minimum lease payments has been capitalized.

Future payments under these capital lease arrangements, which includes $20,767 in finance charges, are as follows:

Year ending June 30,	
2009	$ 20,506
2010	20,506
2011	20,506
2012	20,506
2013	17,148
Thereafter	-
	$ 99,172

---

12. EARNINGS PER SHARE

The following table sets forth the computation of earnings per share:

	2008	2007
Numerator:		
Net income (loss)	$ 177,466	$ (106,624)
Denominator:		
Denominator for basic earnings per share - weighted average shares outstanding	4,748,699	4,655,280

Effect of dilutive securities - Stock Options	18,083	n/a
Denominator for dilutive earnings per share under the treasury stock method - weighted average shares outstanding	4,766,782	n/a
Basic Earnings (Loss) per share	$ 0.04	$ (0.02)
Dilutive Earnings per share	$ 0.04	n/a

Common stock equivalents of 86,000 and 290,000 for the years ended June 30, 2008 and June 30, 2007, respectively, were not included in computing diluted earnings per share as their effect would have been anti-dilutive.

13. INDUSTRY SEGMENT INFORMATION

The Company operates two primary business segments: (1) Polymer Research and (2) Medical Products.

Products included in the polymer research segment are Aquadapt®, Aquamere®, Aquatrix®, Dermaseal®, Hydromer® Anti-Fog/Condensation Control Coatings, Hydromer® Lubricious Coatings, Sea-Slide® and T-HEXX® Barrier Dips and Sprays. Research and Development services and all of the Company's royalties and contract revenues are reported in this segment.

The medical products segment includes an OEM product line of bipolar coagulation probes, placement catheters, bilary stents, jejunal and enteral feeding accessories, guidewires, biofeedback devices for fecal and urinary incontinence and other endoscopic accessories. Service revenues, including coating services and engineering services, are included in this segment.

Due to the multitude of products offered and the product gross margins, the Company does not track sales volumes by products.

The Company operates globally in its segments with several large customers that are important to their operating results. One such customer accounted for 20% and 22% of the polymer research segment sales for the 2008 and 2007 fiscal years, respectively. For the medical products segment, the top three customers accounted for 66% and 69% of that segment's 2008 and 2007 sales, respectively.

The Company evaluates the segments by revenues, total expenses and earnings before income taxes. The Company's assets are not reviewed by business segment. The accounting policies of these segments are described in the summary of significant accounting policies.

Corporate Overhead, primarily the salaries and fringes of senior management, support services (Accounting, Legal, Human Resources and Purchasing) and other shared services (Building maintenance and warehousing), is reflected separately from the results of the business segments in the following:

	Polymer Research	Medical Products	Corporate Overhead	Total
Year Ended June 30, 2008*				
Revenue	$ 4,399,344	$ 3,610,980		$ 8,010,324
Expenses	(3,262,739)	(3,053,191)	$ (1,503,673)	(7,819,603)
Earnings (Loss) before Income Taxes	$ 1,136,605	$ 557,789	$ (1,503,673)	$ 190,721
Year Ended June 30, 2007				
Revenue	$ 4,250,497	$ 3,848,988		$ 8,099,485
Expenses	(3,524,288)	(3,207,677)	$ (1,575,146)	(8,307,111)
Earnings (Loss) before Income Taxes	$ 726,209	$ 641,311	$ (1,575,146)	$ (207,626)

* Included under the Polymer Research segment was the non-cash impairment of intangible assets of $126,420 for fiscal 2008.

Geographic revenues were as follows for the years ended June 30,

	2008	2007
Domestic	81%	85%
Foreign	19%	15%

---

14. CONTINGENCIES

Royalty revenues and support fees recorded by the Company are based on the sales of products as reported by the Company's customers, which has the risk of being under- or over-reported. To minimize such risks, the Company's management utilizes its knowledge and understanding of the customer's business, the market and other pertinent factors in assessing the validity of reported royalties. In addition, the Company may have a right to audit the amounts reported.

The Company has not received any claims by its customers for possible overpayment of royalties or support fees.

The Company is currently a defendant in a product liability action which is covered within the Company's Product Liability Insurance policy. Management does not expect the outcome to have a material impact to the financial statements.

---

15. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Prior to SFAS 157, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. Moreover, that guidance was dispersed among the many accounting pronouncements that require fair value measurements. Differences in that guidance created inconsistencies that added to the complexity in applying GAAP. The changes to current practice resulting from the application of SFAS 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company presently does not expect the adoption of SFAS 157 to have an effect on its financial statements.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value which are not currently required to be measured at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company presently does not expect the adoption of SFAS 159 to have an effect on its financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

---

16. SUBSEQUENT EVENTS

On September 4, 2008, the Company refinanced it mortgages, tapping into its available equity to borrow an additional $1.1 million in order to provide it with the required funds to repay its maturing Line-of-Credit facility and to provide for additional working capital. (See Footnote 6. LONG-TERM DEBT AND CREDIT FACILITY)

INDEX TO EXHIBITS

3.a Certificate of Incorporation of the Company, as amended to date
3.b By-Laws of the Company, as amended to date
10.a Minutes of Meeting of the Board of Directors of the Company held on March 5, 1981 with respect to stock options granted to Manfred F. Dyck (Incorporated by reference to Exhibit 10.i to the Registration Statement).
10.b Agreement dated August 11, 1981 between Horizon Concepts, Inc., and the Company (Incorporated by reference to Exhibit 10.c to the Registration Statement).
10.c Agreement dated January 27, 1982 between Reliable Pharmaceutical Company, Inc. and the Company (Incorporated by reference to Exhibit 10.d to the Registration Statement).
10.d License Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.g to the Registration Statement).
10.e Management Services Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.h to the Registration Statement).
10.f Amendment dated October 7, 1982 to Agreement dated January 27, 1982 between Reliable Pharmaceutical Company, Inc. and the Company, together with letter dated October 14, 1982 from Reliable Pharmaceutical Company, Inc. to the Company (Incorporated by reference to Exhibit 10.f to the 1983 Annual Report).
10.g Hydromer Coating agreement dated February 11, 1983 between Pacesetter Systems, Inc. and the Company (Incorporated by reference to Exhibit 10.g to the 1983 Annual Report).
10.h Lease Agreement dated April 5, 1983 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.h to the 1983 Annual Report).
10.i License Agreement dated April 25, 1983 between CardioSearch Inc. and the Company (Incorporated by reference to Exhibit 10.i to the 1983 Annual Report).
10.j Trademark License Agreement dated April 25, 1983 between CardioSearch Inc. and the Company (Incorporated by reference to Exhibit 10.j to the 1983 Annual Report).
10.k Agreement dated August 31, 1983 between Becton, Dickinson & Company and the Company (Incorporated by reference to Exhibit 10.l to the 1983 Annual Report).
10.l Current Report on Form 8-K filed May 30, 1986
10.m Hydromer Coating License Agreement dated September 30, 1984 between Axiom Medical, Inc. and the Company (Incorporated by reference to Exhibit 10.m to the 1984 Annual Report).
10.n 1982 Stock Option Plan of the Company (Incorporated by reference to Exhibit 10.m to the 1983 Annual Report).

10.o Amendment dated June 26, 1984 to Agreement dated August 3, 1983 between Becton, Dickinson & Company and the Company (Incorporated by reference to Exhibit 10.o to the 1984 Annual Report).

10.p License Agreement dated July 31, 1984 between Kendall Company and the Company (Incorporated by reference to Exhibit 10.p to the 1984 Annual Report).

10.q License Agreement dated March 1, 1985 between Van-Tec Inc. and the Company and Letter of Amendment thereto dated June 13, 1985 (Incorporated by reference to Exhibit 10.o to the 1985 Annual Report).

10.r Telex dated June 24, 1985 terminating License Agreement with CardioSearch Inc. (Incorporated by reference to Exhibit 10.p to the 1984 Annual Report).

10.s Amendment dated as of December 31, 1984 to Management Services Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.q to the 1985 Annual Report).

10.t Lease Renewal Agreement dated April 15, 1985 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.r to the 1985 Annual Report).

10.u Lease Agreement dated December 4, 1984 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.s to the 1985 Annual Report).

10.v License Agreement dated April 11, 1986 between Axiom Medical, Inc. and the Company (Incorporated by reference to Exhibit 10.i to the 1986 Annual Report).

10.w License Agreement dated September 13, 1985 between U. S. Viggo and the Company (Incorporated by reference to Exhibit 10.c to the 1986 Annual Report).

10.x License Agreement dated March 27, 1986 between Wilkinson Sword Limited and the Company (Incorporated by reference to Exhibit 10.f of the 1986 Annual Report).

10.y Lease Renewal Agreement dated April 15, 1987 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.y to the 1987 Annual Report).

10.z License Agreement dated April 30, 1986 between HPK International and the Company (Incorporated by reference to Exhibit 10.j to the 1986 Annual Report).

10.aa License Agreement dated August 1, 1986 between Film Specialties, Inc. and the Company (Incorporated by reference to Exhibit 10.aa to the 1987 Annual Report).

10.ab Lease Renewal Agreement dated April 15, 1988 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ab to the 1988 Annual Report).

10.ac License Agreement dated June 30, 1987 between Richards Medical Company and the Company (Incorporated by reference to Exhibit 10.ac to the 1988 Annual Report).

10.ad License Agreement dated December 1, 1987 between Mallinckrodt, Inc. and the Company (Incorporated by reference to Exhibit 10.ad to the 1988 Annual Report).

10.ae Option Agreement dated January 28, 1988 between Cordis Corporation and the Company (Incorporated by reference to Exhibit 10.ae to the 1988 Annual Report).

10.af Lease Agreement dated April 15, 1988 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.ag of the 1988 Annual Report).

10.ag Letters dated June 11, 1987 and September 22, 1987 to U. S. Viggo, Inc. modifying License Agreement dated September 13, 1985, to cover only central venous catheters (Incorporated by reference to Exhibit 10.ag to the 1988 Annual Report).

10.ah Lease Renewal Agreement dated April 15, 1989 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ah to the 1989 Annual Report).

10.ai Amendment dated October 1, 1988 to License Agreement dated September 13, 1985, between U. S. Viggo and the Company (Incorporated by reference to Exhibit 10.ai to the 1989 Annual Report).

10.aj License Agreement dated October 20, 1988 between Cordis Corp. and the Company (Incorporated by reference to Exhibit 10.aj to the 1989 Annual Report).

10.ak License Agreement dated March 31, 1989 between Cathlab Corp. and the Company (Incorporated by reference to Exhibit 10.ak to the 1989 Annual Report).

10.al Amendment dated December 1, 1988 to License Agreement dated August 1, 1986 between Film Specialties, Inc. and the Company (Incorporated by reference to Exhibit 10.al to the 1989 Annual Report).

10.am Finders Agreement dated August 20, 1987 between Phoenix Chemical, Inc. and the Company (Incorporated by reference to Exhibit 10.am to the 1989 Annual Report).

10.an License Agreement dated September 10, 1989 between the Stent Division of Schneider and the Company (Incorporated by reference to Exhibit 10.an to the 1990 Annual Report).

10.ao License Agreement dated March 30, 1990 between Cosmo Ikko Company and the Company (Incorporated by reference to Exhibit 10.ao to the 1990 Annual Report).

10.ap License Agreement dated April 12, 1990 between Interventional Therapeutics, Inc. and the Company and amendment dated May 7, 1990 to the Agreement dated April 12, 1990 between Interventional Therapeutics, Inc. and the Company (Incorporated by reference to Exhibit 10.ap to the 1990 Annual Report).

10.aq Amended License Agreement dated January 1, 1990 between the Wilkinson Sword group of companies and the Company (Incorporated by reference to Exhibit 10.aq the 1990 Annual Report).

10.ar Lease Agreement dated April 15, 1990 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ar to the 1990 Annual Report).

10.as Amendment to the Agreement dated July 31, 1984 between Kendall Company and the Company (Incorporated by reference

to Exhibit 10.as to the 1990 Annual Report).

10.at License Agreement dated January 11, 1991 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.at to the 1991 Annual Report).

10.au License Agreement dated May 16, 1991 between I E Sensors and the Company (Incorporated by reference to Exhibit 10.au to the 1991 Annual Report).

10.av Lease Renewal Agreement dated April 15, 1991 between Salem Realty and The Company (Incorporated by reference to Exhibit 10.av to the 1991 Annual Report).

10.aw License Agreement dated July 25, 1991 between Johnson & Johnson Orthopaedics and the Company (Incorporated by reference to Exhibit 10.aw to the 1992 Annual Report).

10.ax License Agreement dated August 19, 1991 between Navarre Laboratories Ltd. and the Company (Incorporated by reference to Exhibit 10.ax to the 1992 Annual Report).

10.ay Amended License Agreement dated September 15, 1991 between Boston Scientific Corp. and the Company (Incorporated by reference to Exhibit 10.ay to the 1992 Annual Report).

10.az Option/License Agreement dated September 23,1991 between Elan Corp. PLC and the Company (Incorporated by reference to Exhibit 10.az to the 1992 Annual Report).

10.ba Lease Agreement dated November 1, 1991 between Morton Street Realty and the Company (Incorporated by reference to Exhibit 10.ba to the 1992 Annual Report).

10.bb License Agreement dated August 17, 1992 between SCIMED Peripheral Interventions, division of SCIMED Life Systems, Inc. and the Company. (Incorporated by reference to Exhibit 10.bb to the 1993 Annual Report).

10.bc License Agreement dated March 9, 1993 between Arrow International, Inc. and the Company. (Incorporated by reference to Exhibit 10.bc to the 1993 Annual Report).

10.bd License Agreement dated April 28, 1993 between St. Jude Medical, Inc. and the Company. (Incorporated by reference to Exhibit 10.bd to the 1993 Annual Report).

10.be License Agreement dated November 11, 1993 between Katoh Hatsujyo Kaisha, Ltd. and the Company. (Incorporated by reference to Exhibit 10.be to the 1994 Annual Report).

10.bf Lease Agreement dated June 9, 1995 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.bf to the 1995 Annual Report).

10.bg Amendment dated September 20, 1995 to License Agreement dated April 28, 1993 between St. Jude Medical, Inc. and the Company. (Incorporated by reference to Exhibit 10.bg to the 1996 Annual Report).

10.bh License Agreement dated April 12, 1990 between Interventional Therapeutics and the Company was terminated effective December 22, 1995. (Incorporated by reference to Exhibit 10.bh to the 1996 Annual Report).

10.bi License Agreement dated May 16, 1991 between I E Sensors and the Company was terminated effective December 31,

	1995. (Incorporated by reference to Exhibit 10.bi to the 1996 Annual Report).
	10.bj Consented to the assignment of license agreement dated April 28,1993 between St. Jude Medical, Inc. and the Company to CR Bard dated January 18, 1996. (Incorporated by reference to Exhibit 10.bj to the 1996 Annual Report).
	10.bk License Agreement dated April 30, 1986 between HPK International and the Company was terminated effective February 19, 1996. (Incorporated by reference to Exhibit 10.bk to the 1996 Annual Report).
	10.bl License Agreement dated June 6, 1996 between Biosearch Medical Products Inc. and the Company. (Incorporated by reference to Exhibit 10.bl to the 1996 Annual Report).
	10.bm License Agreement dated August 1, 1996 between Biosearch Medical Products Inc. and the Company.
	10.bn Amended License Agreement dated September 4, 1996 between SCIMED (Boston Scientific Corporation) and the Company.
	10.bo License Agreement dated January 6, 1997 between Sherwood Davis & Geck and the Company.
	10.bp Use permit for certain designated area dated May 4, 1997 between Biosearch Medical Products Inc. and the Company
	10.bq Contract of sale between Biosearch Medical Products and the Company for the sale of 35 Industrial Parkway dated 3/31/98
	10.br Note and mortgage with PNC Bank dated 6/12/98
	10.bs 3 year lease agreement with Biosearch Medical Products dated 6/12/98 for 35 Industrial Parkway
	10.bt License of technology, supply and stock purchase agreement with C.R.Bard dated 2/25/99
	10.bu Trademark and technology license agreement with AST dated 3/9/99
	10.bv License of two gel patents from Ridge Scientific dated 11/1/98
	10.bw License and Supply agreement with Gallini SRL dated 6/28/00
	10.bx Standstill agreement with license option with IMED Pharma Inc. dated 3/30/00
	10.by License of technology with Symbiotech Medical Inc. dated 3/28/00
	10.bz License and supply agreement with TP Orthodontics Inc. dated 3/30/00
	10.ca License Agreement dated July 1, 2000 between Becton Dickinson and Company, Inc. and the Company.
	10.cb License Agreement dated January 1, 2001 between LHS Limited and LHS Holding Limited, English dba KLEENCARE and the Company.
	10.cc License Agreement dated April 17, 2001 between Tyco Healthcare Group LP and the Company.
	10.cd Construction Contract dated April 19, 2001 between REDCO Engineering & Construction Corp and the Company.

	10.ce Service Agreement dated April 23, 2001 between Tyco Healthcare Group LP and the Company.
	10.cf Loan Agreement dated June 7, 2001 between New Millenium Bank and the Company.
	10.cg By-Laws Articles of Incorporation.
	10.ch Loan Agreement dated June 30, 2005 between Wachovia Bank, N.A. and the Company.
	24. Power of Attorney (see "Power of Attorney" in the Annual Report on Form 10-KSB).
	31.1 Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
	31.2 Certification of Robert Y. Lee, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
	32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Manfred F. Dyck, Chief Executive Officer of Hydromer, Inc.
	32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Robert Y. Lee, Chief Financial Officer of Hydromer, Inc.

INDEX TO 2008 10-KSB CERTIFICATIONS

Exhibit No.	Description
31.1	Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of Robert Y. Lee, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Manfred F. Dyck, Chief Executive Officer of Hydromer, Inc.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Robert Y. Lee, Chief Financial Officer of Hydromer, Inc.