HYDRON TECHNOLOGIES INC
Form 10-Q
August 15, 2005

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: JUNE 30, 2005

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Period from _____ to _____

Commission File Number: 0-6333

HYDRON TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

New York	13-1574215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4400 34th Street North, Suite F
St Petersburg, FL 33714
(Address of Principal Executive Offices) (Zip Code)

(954) 861-6400
(Registrant's telephone number)

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

Number of shares of common stock outstanding as of August 15, 2005: 11,320,336

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

HYDRON TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2005 (UNAUDITED)	DECEMBER 31, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 270,621	$ 339,679
Trade accounts receivable	41,463	9,614
Inventories	501,432	481,996
Prepaid expenses and other current assets	29,808	67,190
Total current assets	843,324	898,479
Property and equipment, less accumulated depreciation of $211,819 and $209,329 at		

2005 and 2004, respectively	10,183	12,673
Deposits	19,587	19,587
Deferred product costs, less accumulated amortization of $174,282 and $162,135 at 2005 and 2004, respectively	173,898	189,683
Total Assets	$ 1,046,992	$ 1,120,422
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	96,137	$ 90,440
Loans payable - net of unamortized discount	127,036	751
Royalties payable	30,512	29,132
Deferred revenues	137,719	91,180
Accrued liabilities	232,774	229,953
Total current liabilities	624,178	441,456
Commitments and contingencies		
Minority interest in consolidated partnership	266,980	285,191
Shareholders' equity		
Preferred stock - $.01 par value 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - $.01 par value 30,000,000 shares authorized; 9,320,336 shares issued and 9,320,336 shares outstanding at 2005; and 2004, respectively	93,203	93,203
Additional paid-in capital	20,760,049	20,736,049
Accumulated deficit	(20,689,602)	(20,427,661)
Treasury stock, at cost 10,000 at 2005 and 2004	(7,816)	(7,816)
Total Shareholders' equity	155,834	393,775
Total liabilities and shareholders equity	$ 1,046,992	$ 1,120,422

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HYDRON TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED JUNE 30, 2005	2004	SIX MONTHS ENDED JUNE 3 2005	2004
Net sales	$ 275,781	$ 336,098	$ 531,695	$ 722,2
Cost of sales	132,390	145,822	229,650	303,4
Gross profits	143,391	190,276	302,045	418,7
Expenses				

Royalty expense	10,486	10,852	18,211	22,8
Research and development	15,758	56,698	54,728	121,4
Selling, general & administration	216,395	298,984	491,669	608,0
Depreciation & amortization	9,137	8,550	18,274	17,1
Total expenses	251,776	375,084	582,882	769,3
Operating loss	(108,385)	(184,808)	(280,837)	(350,5
Interest income - net of interest expense	264	842	686	1,6
Loss before income taxes	(108,121)	(183,966)	(280,151)	(348,9
Minority interest in net loss	9,666	-	18,211	
Income taxes expense	-	-	-	
Net loss	$ (98,455)	$ (183,966)	$ (261,940)	$ (348,9
Basic and diluted loss per share				
Net loss per common share	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.
Weighted average shares outstanding (basic and diluted)	9,320,336	9,260,136	9,320,336	9,260,1

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HYDRON TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	SIX MONTHS ENDED JUNE 30, 2005	2004
Operating activities		
Net loss	$(261,940)	$(348,937)
Adjustments to reconcile net loss to net cash used by operating activities		
Minority Interest	(18,211)	-
Depreciation and amortization	18,274	17,100
Change in operating assets and liabilities		
Trade accounts receivables	(31,849)	(16,083)
Inventories	(19,436)	(4,720)
Prepaid expenses and other current assets	37,380	(15,001)
Accounts payable	5,699	81,183
Royalties payable	1,380	22,819
Deferred revenues	46,539	(70,567)
Accrued liabilities	2,821	10,003
Net cash used in operating activities	(219,343)	(324,203)
Investing activities		
Deferred product costs	-	(4,740)

Net cash used in investing activities	-	(4,740)
Financing activities		
Loan payable , proceeds	150,285	(1,930)
Net cash provided by financing activities	150,285	(1,930)
Net decrease in cash and cash equivalents	(69,058)	(330,873)
Cash and cash equivalents at beginning of period ...	339,679	964,723
Cash and cash equivalents at end of period	$ 270,621	$ 633,850
Supplemental cash flow information		
Warrants issued in connection with loans payable ...	$ 24,000	-

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

HYDRON TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Hydron Technologies, Inc. (the "Company"), all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six -month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements for the period ended June 30, 2005 and June 30, 2004 include the accounts of Hydron Technologies, Inc. and its subsidiary, Hydron Royalty Partners Ltd LLP. All significant intercompany accounts and transactions have been eliminated.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), a revision to SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R

establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently in the process of evaluating the potential impact that the adoption of SFAS 123R will have on its consolidated financial position and results of operations.

SFAS No. 154, Accounting Changes and Error Corrections, was issued in May 2005 and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005. The Company's expected April 1, 2006 adoption of SFAS No. 154 is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

HYDRON TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - INVENTORIES

Inventories consist of the following:

	June 30, 2005	December 31, 2004
Finished Goods	$115,293	$ 93,312
Raw materials and components .	386,139	388,684
	$501,432	$481,996

NOTE C - DISTRIBUTION

The majority of the Company's products are currently sold in the United States through its direct marketing channels (proprietary Catalog and the World Wide Web site). The Company also sells its products to private label customers, television retailers and, to a lesser extent, internationally through salons and doctors offices.

NOTE D - EARNINGS PER SHARE

On January 25, 2005, the Board of Directors, by unanimous consent, re-authorized the issuance of 743,500 stock options from the 2003 Stock Plan to Directors and Officers of the Company. Since the original approval date was more than 12 months before the shareholder adoption of the 2003 Stock Plan, the options had to be re-authorized to include them under the plan.

There were no options granted to employees during the six months ended June 30, 2005 that would require adjustments to the pro forma information regarding net income and earnings per share required by FASB Statement No. 123.

NOTE E - ACCRUED LIABILITIES

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

liabilities consisted of the following:

	June 30, 2005	December 31, 2004
Dividends payable	$ 83,163	$ 83,163
Director fees payable	91,018	81,016
Legal fees	28,867	40,754
Other	29,726	25,020
	$232,774	$229,953

HYDRON TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE F - LOANS PAYABLE

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

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

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

The Notes and the Warrants each provide that in the event that the Company shall grant "piggy back" registration rights to any other party to cause the Company's Common Stock or any security exercisable or exchangeable for, or

convertible into, shares of Common Stock to be included in a registration statement filed by the Company for sale by any selling shareholder or by the Company, the Company will grant the holders of the Notes and Warrants similar registration rights.

Loans Payable consisted of the following:

	June 30, 2005	December 31, 2004
Loan Payable	$150,000	$ -
Accrued interest	1,036	751
Less: unamortized discount on note payable	24,000	-
	$127,036	$751

HYDRON TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G - GOING CONCERN

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

The Company anticipates that present working capital balances and internally generated funds will be sufficient to meet our working capital needs for the next three months and maybe longer based on management decisions and sales. Beyond that point, it will be necessary to consummate a merger, sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

On January 28, 2005, the Company entered into a marketing agreement with Clinical Results, Inc. and Bioceutical Research, Inc. to license its technology and the Hydron branded products, respectively. Any impact on cash flow is not expected to be realized for six to nine months. In addition, the Company has lowered its operating expenses by reducing research and development and payroll costs.

The Company is considering several additional options to resolve the negative cash flow, including merging with parties that have a broad channel of distribution, forming a new private entity and transferring the operating assets to it, then selling the public shell, and selling one or more selected assets. One of these alternatives and/or an infusion of additional capital will be required in order to generate the cash required in the short term. On July 1, 2005 the Company acquired Clinical Results, Inc. (see Note H).

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

NOTE H - SUBSEQUENT EVENTS

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

While CRI will continue providing contract services for its customer base, Hydron Technologies will benefit from lower manufacturing costs, and be better positioned to expand the sale of its skin care treatments beyond its historical direct response TV and catalog operations by utilizing CRI's broker network.

Under the terms of the agreement, Hydron Technologies acquired all of the outstanding shares of capital stock of CRI in consideration of an aggregate of two million newly-issued shares of the Company, in a transaction exempt from registration under the securities laws. Such shares are subject to transfer restrictions unless registered under federal and applicable state securities laws or sold in a transaction exempt from registration. Additionally, Hydron restructured both its management and its Board of Directors. David Pollock, currently President of CRI, become Chief Executive Officer of the Company, while remaining President of CRI, and joined Hydron's Board, replacing Joshua Rochlin who resigned from the Board on March 31, 2005. Dr. Douglas Reitz, CRI's co-owner, become Executive Vice President of Hydron and Richard Banakus retained the titles of Interim President and Chairman of the Board, of the Company.

Effective August 5, 2005, Mr. Terrence S. McGrath , the Company's Chief Operating Officer resigned in order to pursue other career opportunities. Mr. McGrath's responsibilities were assumed by Mr. David E. Pollock, Hydron's Chief Executive Officer.

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

BUSINESS

The Company's primary focus had been to conduct research and development into products and medical applications utilizing its patented tissue oxygenation technology.

The Company's research and development efforts during 2004 concentrated on accumulating data for a Food and Drug Administration (FDA) application related to the Company's oxygenation technology. A formal Request For Designation (RFD) was filed with the FDA in September 2004 to request that the FDA formally designate the Hydron MicroO2 Oxygenation Apparatus as a medical device. The FDA agreed in October. On January 10, 2005, the Company attended a Pre-Investigational Device Exemption meeting with the FDA to present the device, however, a clear pathway for safety and clinical research requirements could not be determined at that time. It was suggested that filing a complete 510(k) application would provide the FDA with an opportunity to review additional information from Hydron. The Company is considering if and when to pursue the 510(k) filing.

The Company is refocusing its efforts on its other proprietary technologies which include: patented polymer skin care formulas that provide superior skin moisturization benefits and sunscreen delivery; a patented formula for a wrinkle reduction serum, and patent-pending technology associated with an evaporating emulsifier used in cosmetic treatments and acne products.

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

Catalog Sales - The Company's full-color brochure offers personal care products for sale directly to consumers. The brochure also provides information on new products, educates consumers on proper skin care, and facilitates consumer re-ordering. The Company sells its products on the World Wide Web and regularly transmits E-mail broadcasts to its customer base. The Company is continuing to explore new ways to enhance Catalog sales and operations through retail distribution of its brands and formula technologies.

Private Label Contracting - Effective March 1, 2001, the Company entered into an agreement with Reliv International, Inc ("Reliv") to develop and manufacture a line of private label skin care products under their brand name, ReversAge(R). Reliv is a public company traded on NASDAQ (symbol RELV). Private label sales represented approximately 19.2% of Hydron's total annual sales in 2004. Private label sales accounted for 16.7% of total sales during the six months ended June 30, 2005.

International - The Company sells products to an Australia-based health and beauty products distributor for retail sale in salon stores and medical offices in Australia and New Zealand. The Company also distributes dental products in Spain and, to a lesser extent, other countries. Although this category is not significant at this time, Management believes that it will expand with the introduction of the Company's brands and technologies through retail distribution channels.

Retail - The Company has established minor levels of retail distribution. Initially, the Company sold product on a limited, promotional basis to several retailers utilizing excess inventory and current packaging configurations. It is anticipated that any significant retail effort involving core Hydron products would require investment in repackaging.

Licensing - Effective January 28, 2005, the Company entered into a non-exclusive licensing agreement with Clinical Results, Inc. ("CRI"), which allows for certain Hydron cosmetic skincare technologies, sold and manufactured by CRI, to be offered to third parties under private label contracts. The Company receives royalties based on wholesale sales by CRI to its customers. The agreement includes the patented Hydron polymer and sunscreen technology, patented line smoothing technology, and patent-pending emulsifier technology.

Effective January 28, 2005 Hydron licensed Bioceutical Research, Inc. ("BRI") the non-exclusive right to market Hydron(R) and Hydronamins(R) branded

products to retail accounts, including drug stores, mass-merchandisers, club stores, and salon/spa accounts. BRI will pay Hydron royalties on wholesale sales while undertaking responsibility for manufacturing, marketing, and sales.

RESULTS OF OPERATIONS

Total net sales for the three months ended June 30, 2005 were $275,781, a decrease of $60,317 or 17.9% from net sales of $336,098 for the three months ended June 30, 2004 Skin care products net sales for the three months ended June 30, 2005 were $248,200, a decrease of $52,758 or 17.5% from sales of $300,958 for the three months ended June 30, 2004. Professional products net sales for the three months ended June 30, 2005 were $1,542, a decrease of $632 or 29.1% from sales of $2,174 for the three months ended June 30, 2004. Shipping and handling revenues for the three months ended June 30, 2005 were $25,787, a decrease of $7,179 or 21.8% from shipping and handling revenues of $32,966 in the three months ended June 30, 2004.

For the six months ended June 30, 2005, total net sales were $531,695, a decrease of $190,535 or 26.4% from net sales of $722,230 for the six months ended June 30, 2004. Skin care products net sales for the six months ended June 30, 2005 were $473,844, a decrease of $181,371 or 27.7% from sales of $655,215 for the six months ended June 30 2004. Professional products' net sales for the six months ended June 30, 2005 were $2,730, an increase of $556 or 25.6% from sales of $2,174 for the six months ended June 30, 2004. Shipping and handling revenues for the six months ended June 30, 2005 were $53,428, a decrease of $9,588 or 15.2% from shipping and handling revenues of $63,016 in the six months ended June 30, 2004.

Skin care products sales consist primarily of catalog sales and private label sales. During the three months ended June 30, 2005, direct marketing catalog sales decreased by $42,274 or 19.8% from $213,808 for the three months ended June 30, 2004 to $171,534. Private label sales for the three months ended June 30, 2005 were $76,666, a decrease of $10,484 or 12.0% from private label sales of $87,150 for the same period last year. These sales tend to fluctuate from quarter to quarter as purchase orders for individual items cover more than one year's supply. Purchase orders are received only approximately four to six times a year for the seven items in the line.

For the six months ended June 30, 2005, direct marketing catalog sales decreased by $86,527 or 19.4% from $445,683 last year to $359,156 this year. Private label sales for the six months were $114,687, a decrease of $94,845 from private label sales of $209,532 for the same period last year. As stated above, these private label sales tend to fluctuate significantly from quarter to quarter.

Cost of sales was $132,390 for the three months ended June 30, 2005, a decrease of $13,432 or 9.2% from cost of sales of $145,822 for the three months ended June 30, 2004. Cost of sales was 48.0% of total sales for the three months ended June 30, 2005 compared to 43.4% for the three months ended June 30, 2004. The increase in cost of sales percentage reflects the impact of this period's private label sales, which included unusually high product cost (84.7% of sales), versus the product cost of catalog sales (18.9% of catalog sales.) Shipping and handling costs for the second quarter of 2005 were $28,308, a decrease of $6,899 or 19.6% from shipping and handling costs of $35,207 for the same period in 2004. This decrease reflects the 20.7% decline in catalog sales offset by savings realized by performing more of the shipping and handling tasks in house.

For the six months ended June 30, 2005 cost of sales was $229,650, a

decrease of $73,802 or 24.3% from cost of sales of $303,452 for the six months ended June 30, 2004. Cost of sales was 43.2% of total sales for the six months ended June 30, 2005 compared to 42.0% for the six months ended June 30, 2004. The increase in cost of sales percentage reflects the impact of this period's private label sales as stated above. Shipping and handling costs for the six months were $60,278, a decrease of $7,661 or 11.3% from shipping and handling costs of $67,939 for the same period in 2004. This decrease reflects the 19.4% decline in catalog sales offset by savings realized by performing more of the shipping and handling tasks in house.

The Company's overall gross profit margin decreased to 52.0% of net sales for the three months ended June 30, 2005 versus 56.6% for the three months ended June 30, 2004. This is due primarily to the lower margin private label sales and, to a lesser degree the costs discussed above. For the six month ended June 30, 2005 the overall gross profit margin decreased similarly to 56.8% of net sales versus 58.0% for the same period in 2004.

Royalty expenses for the three months ended June 30, 2005 were $10,486 a decrease of $366, or 3.4%, from royalty expenses of $10,852 for the three months ended June 2004. The decrease in royalty expenses is consistent with the decrease in skin care product sales for the same period. Royalty expenses for the six months ended June 30, 2005 were $18,211 a decrease of $4,608 or 20.2%, from royalty expenses of $22,819 for the six months ended June 2005. The decrease in royalty expenses is consistent with the decrease in skin care product sales for the same period.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, obtain regulatory approval, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, and conduct consumer panel studies and focus groups. R&D expenses for the three months ended June 30, 2005 were $15,758, a decrease of $40,940 or 72.2% from R&D expenses of $56,698 for the three months ended June 30, 2004. For the six months ended June 30, 2005 R&D expenses were $54,728 a decrease of $66,715 or 54.9% from R&D expenses of $121,443 for the same period last year. This decrease was due principally to the Company eliminating the use of outside FDA consultants in association with its oxygenation technology during 2005 versus 2004. The amount of annual R&D expenses will vary year to year depending on the Company's research requirements.

Selling, general, and administrative ("SG&A") expenses for the three months ended June 30, 2005 were $216,395, representing an decrease of $82,589 or 27.6% from SG&A expenses of $298,984 for the three months ended June 30, 2004. Employment expense was $80,180 for the three months ended June 30, 2005, a decrease of $56,400 or 41.3% from $136,580 for the three months ended June 30, 2004. This decrease was due primarily to the elimination of two salaried positions in order to reduce operating costs. Postage expense was $12,004 for the three months ended June 30, 2005, a decrease of $5,956 or 33.2%, from $17,960 for the three months ended June 30, 2004. This decrease was related principally to a new catalog marketing strategy, which reduces mailing frequency to customers who have not purchased in the last 24 months. All other expenses were $124,211 for the three months ended June 30, 2005, a decrease of $20,233 or 14.0% from $144,444 for the three months ended June 30, 2004. For the six months ended June 30, 2004 selling, general, and administrative expenses were $491,669, a decrease of $116,345 or 19.1% from $608,014 for the same period last year.

Depreciation and amortization expense was $9,137 for the three months ended June 30, 2005, an increase of $587 or 6.9% from $8,550 for the three months ended June 30, 2004. For the six months ended June 30, 2005 depreciation and amortization were $18,274, an increase of $1,174 or 6.9% from $17,100 for

the same period last year.

Net interest income was $264 for the three months ended June 30, 2005 compared to net interest income of $842 for the three months ended June 30, 2004. The Company maintains a conservative investment strategy with respect to its cash balances, deriving investment income primarily from U.S. Treasury securities.

The Company had a net loss of $98,455, representing a decrease of $85,511 or 46.5% for the three months ended June 30, 2005 from the net loss of $183,966 for the three months ended June 30, 2004, a result primarily of the factors discussed above.

For the six months ended June 30, 2005, the company had a net loss of $261,940 a decrease of $86,997 or 24.9% from net loss of $348,937 for the six months ended June 30, 2004. The decrease in the net loss is a result primarily of the factors discussed above.

LIQUIDITY AND FINANCIAL RESOURCES

The Company anticipates that present working capital balances and internally generated funds will be sufficient to meet its working capital needs for the next three months, perhaps longer based on management decisions and order flow. Beyond that point, it will be necessary to consummate a merger, sell selected assets, or obtain an infusion of capital. On July 1, 2005 the Company acquired Clinical Results, Inc (see Note H). The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

The Company's working capital was approximately $219,146 as of June 30, 2005, including cash and cash equivalents of approximately $270,621. Cash used by operating activities was $219,343. Net proceeds from financing activities were $150,285.

The Company does not have any material debt other than the loan payable of $150,000 borrowed from three investors on May 2005 (see Note F), long-term capital leases, or long-term operating leases. The lease on the current office facility expires August 31, 2005 and the Company did not renew the lease. Effective August 5, 2005, the Company relocated its offices to St Petersburg, Fl. There are no capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

On December 10, 2002, the Company completed a non-brokered private placement of 1,750,000 Units at $.20 per Unit ($350,000) to several accredited investors. Each Unit is comprised of one share of Common Stock and one three-year option to buy one additional common share at $.20. As of March 31, 2005, all 1,750,000 options were outstanding.

On November 14, 2003, the Company completed a non-brokered private placement of 2,210,000 Units at $.50 per Unit ($1,105,000) to accredited investors. Each Unit is comprised of one share of Common Stock and one five-year warrant to buy one additional common share at $1.00. As of June 30, 2005, all 2,210,000 warrants were outstanding.

The Company registered these outstanding shares and 4,481,500 underlying shares of outstanding warrants/options with the Securities and

Exchange Commission effective July 22, 2004. The warrants/options are a future source of capital for the Company and could generate up to $2,560,000 if they are exercised.

The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis. The ability of the Company to continue as a going concern is dependent upon increasing sales, managing operating expenses and obtaining additional equity financing.

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

- Conducting merger negotiations with third parties that have distribution networks in place. The synergies, combined sales, and reduced overhead would create a solid operational foundation and improved financial position.

- Forming a new private entity and transferring the operating assets to it, then selling the public shell to one of the interested parties.
- Selling one or more selected assets.
- Obtaining an infusion of capital that will sustain the Company's operation until the newly established licensing arrangements can produce positive cash flow.
- Continuing to reduce overhead and operating costs.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectations, hopes, intentions, beliefs or strategies regarding the future, including, without limitation, its plans regarding distribution and marketing of its products and the development, acquisition and marketing of new products. Forward-looking statements include the Company's liquidity, anticipated cash needs and availability, and the anticipated expense levels under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward-looking statements included in this document are based on information available to the Company on the date of this report, and the Company assumes no obligation to update any such forward-looking statement. It is important to note that the Company's actual results could differ materially from those expressed or implied in such forward-looking statements.

Each forward-looking statement reflects the Company's current view of future events and is subject to risks, uncertainties, and other factors that could cause actual results to differ materially from any results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from the results expressed or implied by any forward-looking statements include:

- The volatility of the price of the Company's Common Stock;
- The Company's ability to fund future growth;
- The Company's ability to be profitable;
- The Company's ability to attract and retain qualified personnel;
- The Company's ability to effectively relocate operations to its new facility in St Petersburg, Fl;
- The ability of the new management to effectively execute the Company's operating plan and continue operations;

- General economic conditions in the medical and cosmetic markets;
- Market demand for and market acceptance of the Company's products;
- Legal claims against the Company, including, but not limited to claims of patent infringement;
- The Company's ability to protect its intellectual property;
- Defects in the Company's products;
- The Company's obligation to indemnify certain customers;
- The Company's dependence on contact manufacturers and suppliers;
- The Company's dependence on a small number of customers for revenue with respect to its products;
- The Company's ability to develop and maintain relationships with key vendors;
- New regulations and legislation;
- General economic and business conditions;
- Other risks and uncertainties disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and in the Company's other filings with the SEC.

All subsequent forward-looking statements relating to the matters described in this document and attributable to us or to persons acting on the Company's behalf are expressly qualified in their entirety by such factors. The Company has no obligation to publicly update or revise these forward-looking statements to reflect new information, future events, or otherwise, except as required by applicable Federal securities laws, and the Company cautions you not to place undue reliance on these forward-looking statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), a revision to SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining

employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently in the process of evaluating the potential impact that the adoption of SFAS 123R will have on its consolidated financial position and results of operations.

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SFAS No. 154, Accounting Changes and Error Corrections, was issued in May 2005 and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005. The Company's expected April 1, 2006 adoption of SFAS No. 154 is not expected to have a material impact on the Company's consolidated financial condition or results of operations

ITEM 4. CONTROLS AND PROCEDURES

As of the end of this period, the Company carried out an evaluation, under the supervision and with the participation of management, including its Interim President, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Interim President concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information required to be included in the Company's Securities Exchange Act of 1934 filings.

Disclosure controls and procedures (as defined in the Exchange Act Rules 13a-14(c) and 15d-14(c)) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

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

Our management, including the Certifying Officer, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and their

can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

31.1 Certification of Interim President, Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith)

32.1 Certification of Interim President, Principal Financial and Accounting Officer Pursuant to 18 U.S.C., Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

SIGNATURES

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

HYDRON TECHNOLOGIES, INC.

/s/: Richard Banakus

Richard Banakus
Chairman of the Board, Interim President
Principal Financial and Accounting Officer

Dated: August 15, 2005