

HYDRON TECHNOLOGIES INC  
Form 10-Q  
August 14, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

Commission File Number: 000-06333

**HYDRON TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
Incorporation or organization)

13-1574215  
(I.R.S. Employer Identification Number)

4400 34<sup>th</sup> Street N, Suite F  
Saint Petersburg, Florida  
(Address of principal executive offices)

33714  
(Zip Code)

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10-Q

(727) 342-5050

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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

Number of shares of common stock outstanding as of June 30, 2009: 19,621,176

---

<b>TABLE OF CONTENTS</b>		<b>PAGE</b>
<u>Part I.</u>	<u>Financial Information</u>	
Item 1.	Financial Statements (Unaudited)	3
	Consolidated Balance Sheets (unaudited) at June 30, 2009 and September 30, 2008	3
	Consolidated Statements of Operations (unaudited) for the three and nine months ended June 30, 2009 and 2008	4
	Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended June 30, 2009 and 2008	5
	Notes to unaudited Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 4T.	Controls and Procedures	18
<u>Part II.</u>	<u>Other Information</u>	
Item 1.	Legal Proceedings	19
Item 2.	Unregistered Sales Of Securities and Use of Proceeds	19
Item 3.	Defaults Upon Senior Securities	19
Item 4.	Submission of Matters to a Vote of Security Holders	19
Item 5.	Other Information	19
Item 6.	Exhibits	19
	Signatures	24

**HYDRON TECHNOLOGIES, INC.****Consolidated Balance Sheets**

	<b>June 30, 2009 (Unaudited)</b>	<b>September 30, 2008 (1)</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 131,624	\$ 439,000
Due from joint venture, net of \$118,969 allowance for doubtful accounts		
Assets of discontinued operations		579,933
Total current assets	131,624	1,018,933
Property and equipment, net discontinued operations		108,036
Deferred product costs, net	83,944	93,977
Intangible assets, net discontinued operations		128,359
Restricted cash	2,550	7,823
Investment in joint venture	243,065	
Total assets	\$ 461,183	\$ 1,357,128
<b>LIABILITIES AND SHAREHOLDERS EQUITY / DEFICIT</b>		
Current liabilities		
Accounts payable	\$ 13,144	\$ 21,466
Royalties payable	3,204	5,069
Accrued liabilities	284,036	293,032
Liabilities of discontinued operations		171,353
Total current liabilities	300,384	490,920
Minority interest in consolidated partnership	167,937	185,653
Shareholders' equity / deficit		
Preferred stock - \$.01 par value 5,000,000 shares authorized; no shares issued or outstanding		
Preferred stock Series A - \$100 par value 15,000 shares authorized; 13,000 shares, issued or outstanding	1,300,000	1,300,000
Common stock - \$.01 par value 30,000,000 shares authorized; 19,621,176 shares, issued and outstanding	196,211	196,211
Additional paid-in capital	22,175,034	22,164,254
Accumulated deficit	(23,670,567 )	(22,972,094 )
Treasury stock, at cost 10,000 shares	(7,816 )	(7,816 )
Total shareholders' equity / deficit	(7,138 )	680,555 )
Total liabilities and shareholders' equity / deficit	\$ 461,183	\$ 1,357,128

(1) Derived from audited financial statements

See accompanying notes to unaudited consolidated financial statements.

**HYDRON TECHNOLOGIES, INC.**

**Consolidated Statements of Operations**

(Unaudited)

	<b>Three Months ended June 30, 2009</b>
Net sales	\$
Cost of sales	
Gross profit	
Expenses	
Royalty expense	3,204
Selling, general & administration	22,709
Amortization	2,937
Loss from interest in joint venture	10,478
Loss on impairment of investment	5,239
Total expenses	44,567
Operating loss	(44,567)
Interest income net of interest expense of \$997 3 months and \$2,992 9 months (2009), interest(expense) net of interest income of \$0 (2008)	1
Loss before income taxes and minority interest	(44,566)
Income taxes expense	
Minority interest in subsidiary	5,016
Loss from Continuing Operations	\$(39,550)
Discontinued Operations	
Loss from Discontinued Operations	
Net loss	\$(39,550)
Net loss per common share:	
Basic and fully diluted:	
Continuing operations	\$(0.00)
Discontinued operations	\$ \$(0.00)
Weighted average common shares outstanding basic and diluted	19,621

**See accompanying notes to unaudited consolidated financial statements.**

**HYDRON TECHNOLOGIES, INC.****Consolidated Statements of Cash Flows**

(Unaudited)

	<b>Nine Months ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Loss from continuing operations	\$(646,841)	\$(151,200)
Adjustments to reconcile net loss from continuing operations to net cash used in continuing operating activities		
Minority interest	(17,716 )	(15,656 )
Amortization	10,033	13,392
Bad debt	118,969	
Compensation expense from stock option awards	10,780	20,680
Warrants issued from loans payable		4,200
Deferred financing costs		36,357
Common stock issued for interest expense		4,583
Impairment of investment	264,020	
Investment in joint venture	183,218	
Change in operating assets and liabilities		
Restricted cash	5,273	42,273
Due from joint venture	(118,969)	
Accrued interest		14,304
Accounts payable	(8,322 )	(30,256 )
Accrued liabilities	(14,852 )	1,158
Royalties payable	(1,865 )	(8,013 )
Net cash used in continuing activities	(216,272)	(68,178 )
Loss from discontinued operations	(51,632 )	(277,364 )
Adjustments to reconcile net loss from discontinued operations to net cash provided (used) in discontinued operating activities		
Depreciation and amortization		56,768
Bad debt expense		8,318
(Decrease) Increase in net assets from discontinued operations	326,025	(9,475 )
(Decrease) Increase in net liabilities from discontinued operations	(165,497)	21,075
Net cash provided by (used) in discontinued operations	108,896	(200,678 )
Net cash (used) in operating activities	(107,376)	(268,856)
<b>INVESTING ACTIVITIES</b>		
Investment in joint venture	(200,000)	
Net cash used in investing activities	(200,000)	
<b>FINANCING ACTIVITIES</b>		
Cash overdraft		(15,287 )
Proceeds from issuance of Common Stock		275,000
Loan payable, proceeds		40,000
Payments on capital leases		(22,888 )
Proceeds from exercise of stock options		12,500
Net cash provided by financing activities		289,325
Net increase (decrease) in cash and cash equivalents	(307,376)	20,469
Cash and cash equivalents at beginning of period		439,000
Cash and cash equivalents at end of period	\$ 131,624	\$ 20,469

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10-Q

SUPPLEMENTAL CASH FLOW INFORMATION

Stock issued to pay accrued interest	\$	\$4,583
Warrants issued in connection with private offering		300,000
Cash paid for interest	\$349	
Assets contributed in joint venture		490,303

See accompanying notes to unaudited consolidated financial statements.

**Hydron Technologies, Inc**

**Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2009 and 2008**

**Note A Description of Business and Summary of Significant Accounting Policies**

**1. Organization of Business**

Through September 30, 2008, Hydron Technologies, Inc. a New York Corporation (the Company) marketed a broad range of cosmetic and oral health care products, many using a moisture-attracting ingredient (the Hydron® 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 also developed other personal care/cosmetic products for consumers using its patented technology.

The Company has also developed a super-oxygenation technology for which it was granted a patent in November 2003. This patent covers the process of applying a liquid, containing pure oxygen micro-bubbles to the surface of the skin such that the oxygen penetrates the skin and oxygenates the underlying tissue. On January 10, 2005, the Company attended a Pre-Investigational Device Exemption meeting with the FDA in the belief that a clear pathway for safety and clinical research requirements could be determined at that time; however, a defined methodology could not be agreed upon. As a result of that meeting, and in consideration of the Company's limited working capital, management decided to refocus its efforts on non-medical technologies. The Company continues to believe that its tissue oxygenation technology has significant potential.

On November 11, 2008, the Company entered into certain agreements with Brand Builders International, LLC, a Delaware limited liability company (Harezi) effective October 1, 2008, relating to a joint venture between the Company and Harezi to be formed as Brand Builders Rx, LLC, a Delaware limited liability company (the Joint Venture). The Joint Venture was formed for the purpose of designing, marketing, selling, and managing certain technologies and products including, but not limited to, those contributed by the Company.

Brand Builders International was founded by Ilonka Harezi, the driving force behind Teslar Technology and the Philip Stein Teslar watches. The new Joint Venture, will combine the expertise of the two entities for the re-positioning and re-launching of the Hydron named brands, utilizing the marketing and distribution expertise of Ilonka Harezi, her success with the Teslar brand and her Brand Builders International team.

During the past several years the Company has attempted to expand its sales through various marketing efforts. The Company was unable to finance these marketing initiatives from internally generated cash flow alone and when required, raised the needed capital through a number of private placements in its effort to remain solvent. Over the past year, the negative cash position became critical and the Company's Board of Directors weighed a wide variety of alternatives, including bankruptcy, assignment for the benefit of creditors, the selling of assets and/or potential mergers with other parties. Only the merger option was deemed to provide any potential benefit to existing shareholders



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

The Company began discussions with Ilonka Harezi and one other interested prospective investor during the first calendar quarter of 2008. Because of the limited financial resources of the Company, the Company was unable to engage an outside placement agent and instead relied on leads obtained from the officers and directors of the Company. These discussions failed because, at that time the Company's balance sheet and substantially negative cash flow were significant liabilities that offset the potential value the Company would contribute to a merger. A subsequent discussion with another potential merger partner failed for similar reasons.

As conditions deteriorated, the Company was faced with the possibility of immediate bankruptcy, which would have effectively eliminated all shareholder equity. The Company's Board of Directors sought ways to quickly and decisively protect shareholder value. Talks were reopened with Ms. Harezi and initial terms to create a 50/50% LLC were agreed upon in principle.

Under the terms of the Agreement, the Company contributed cash, substantially all of its operating assets and licensed its patented technologies to the Joint Venture. Harezi contributed cash, on-going financing, and a new headquarters and provided sales and marketing expertise, including public relations, the filming of television commercials, production of print media and the building of a sales force in the United States and internationally. The Agreement was contingent upon the Company eliminating all debt and being current on its payables.

**Hydron Technologies, Inc**

**Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2009 and 2008**

Faced with the necessity to raise the money required to meet the terms of the Joint Venture Agreement and to fund the Company's anticipated expenses until the Joint Venture is expected to deliver results, the Board concluded that the best available option for the Company was to raise the funds by soliciting interest in the Company's only other salable asset, the potential value of the cross-royalty arrangement with Valera Pharmaceuticals, Inc. (Valera), which is held indirectly by the Company through its interest in Hydron Royalty Partners, Ltd., LLLP, a Florida limited partnership (the Partnership). Based on the Company's balance sheet, debt position, and the results of other options explored to date, the Company determined that no other available option would raise the necessary funds in the timeframe necessary to complete the Joint Venture.

On July 2, by Unanimous Written Consent, the Board of Directors authorized an amendment to its Certificate of Incorporation (the Certificate) to designate the terms of a Series A Preferred Shares offering from authorized undesignated shares of Preferred Stock as allowed by its Certificate and New York law. On July 30, the Company closed on a \$1.3 million private placement of Series A Preferred Shares which was raised primarily through existing accredited Hydron common shareholders.

Following the closing of the Series A Preferred Shares offering, funds received by the Company relating to any royalties derived by the Partnership from the Valera Agreement will be paid as dividends to the extent legally available to holders of the Series A Preferred Shares, subject to the terms of the Series A Preferred Shares and New York law. Holders of the Series A Preferred Shares are not entitled to receive dividends or other distributions, other than the stated value of their shares, derived from any other revenues of the Company, including distributions, if any, made to the Company by the Joint Venture.

Subsequent to March 31, 2009, the Company and BBRX became aware of potentially fraudulent transactions and both parties are investigating the nature, perpetrators, and scope of the fraudulent activity. Based on our findings to date, the Company believes that the financial statements as reported herein and previously reported are not materially misstated as a result of these suspected fraudulent transactions.

*Basis of Presentation and Going Concern*

The unaudited consolidated financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation. These consolidated financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2008, which is included in the Company's Form 10-KSB for the year ended September 30, 2008. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

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

In November 2008, the Company transferred substantially all of its assets, including all of its operating assets, to Brand Builders International, LLC (the "JV"). Although the Company holds a 50% member interest and has representation on the JV's board of managers, the Company no longer operates the business the results of which are included in this report. The financial information we are relying on was provided to the Company by the JV.

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

The Company's independent accountants issued a "going concern" opinion on the Company's September 30, 2008 financial statements, since the Company has experienced losses from operations in 2008 and 2007. This matter raises substantial doubt about the Company's ability to continue as a going concern.

**Hydron Technologies, Inc**

**Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2009 and 2008**

**Note B Summary of Significant Accounting Policies**

*Use of Estimates*

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

*Principles of Consolidation*

The consolidated financial statements include the accounts of Hydron Technologies, Inc. and its majority owned limited liability limited partnership, Hydron Royalty Partners Ltd., LLLP. All significant inter-company transactions have been eliminated.

*Cash and Cash Equivalents*

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

*Restricted cash*

At June 30, 2009, the Company had restricted cash of \$2,550, all of which was covered by the Federal Deposit Insurance Commission, which represents funds from a consolidated entity, and is not available for use in the Company's normal operations.

*Impairment of Long-Lived Assets*

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

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value.

### *Deferred Product Costs*

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

### *Income Taxes*

Income taxes are accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the recognition of deferred tax assets and liabilities to reflect the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such assets. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some or the entire deferred tax asset will not be realized.

**Hydron Technologies, Inc**

**Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2009 and 2008**

*Common Stock, Common Stock Options*

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which replaces SFAS No. 123 and supersedes APB Opinion No. 25. Under SFAS No. 123(R), companies are required to measure the compensation costs of share based compensation arrangements based on the grant date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share based compensation arrangements include stock options, restricted share plans, performance based awards, share appreciation rights and employee share purchase plans. In March 2005 the SEC issued Staff Accounting Bulletin No. 107, or *SAB 107*. *SAB 107* expresses views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share based payment arrangements for public companies. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. On April 14, 2005, the SEC adopted a new rule amending the compliance dates for SFAS 123R. Companies may elect to apply this statement either prospectively, or on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under SFAS 123. Effective January 1, 2006, the Company has fully adopted the provisions of SFAS No. 123R and related interpretations as provided by *SAB 107*. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. SFAS 123R requires that the deferred stock-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital.

For the nine month periods ended June 30, 2009 and 2008, the Company recorded stock-based compensation expense of \$10,780 and \$20,680 respectively.

*Earnings (loss) Per Share*

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

For the net-loss periods ended June 30, 2009 and 2008, we excluded any effect of the 7,617,000 and 10,173,500 outstanding options and warrants, respectively, as their effect would be anti-dilutive.

*Discontinued Operations*

On November 11, 2008, the Company, entered into certain agreements with Brand Builders International, LLC, a Delaware limited liability company ( *Harezi* ) relating to a joint venture between the Company and *Harezi* to be formed as Brand Builders Rx, LLC, a Delaware limited liability company (the *Joint Venture* ). The *Joint Venture* was formed for the purpose of designing, marketing, selling, and managing certain technologies and products including, but not limited to, those contributed by the Company.

Pursuant to the Capital Contribution Agreement, the Company contributed Two Hundred Thousand Dollars (\$200,000) in cash and assigned substantially all of its assets, other than certain excluded assets provided therein, and license or sublicense certain rights to the Company's intellectual property, subject to performance and payment obligations of the Joint Venture and to the terms of the License Agreement entered into between the Company and the Joint Venture. The Company assigned such assets to the Joint Venture pursuant to the Assignment Agreement.

Accordingly, the Company has reported the assets assigned as discontinued operations, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation

*Reclassifications*

Certain prior period balances have been reclassified to conform to the current year's presentation. These reclassifications had no impact on previously reported results of operations or stockholders' equity.

**Hydron Technologies, Inc**

**Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2009 and 2008**

*Fair Value of Financial Instruments*

The carrying value of cash, accounts payable, and other payables approximates fair value because of their short term maturities.

*Recent accounting Pronouncements*

In March 2008, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 161, Disclosures about Derivative Instruments and Hedging Activities , an amendment of FASB Statement No. 133 ( SFAS No. 161 ). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not believe that SFAS No. 161 will have a material impact on its consolidated financial statements.

In May 2008, the FASB released SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that presented in conformity with generally accepted accounting principles in the United States of America. SFAS No. 162 will be effective 60 days following the SEC s approval of the PCAOB amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles . The FASB has stated that it does not expect SFAS No. 162 will result in a change in current practice. The Company does not believe the application of SFAS 162 will have a significant impact, if any, on the Company s consolidated financial statements.

May 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts. An interpretation of FASB Statement No. 60 ( SFAS No. 163 ). SFAS No. 163 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009. The Company is currently evaluating the impact of SFAS No. 163 on its financial statements but does not expect it to have an effect on the Company s financial position, results of operations or cash flows

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments that may be settled in Cash upon Conversion (Including Partial Cash Settlement) ( FSP APB 14-1 ). FSP APB 14-1 applies to convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years after December 15, 2008, and must be applied on a retrospective basis. Early adoption is not permitted. The Company is assessing the potential impact of this FSP on the convertible debt issuances.



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

In June 2008, the FASB issued FASB Staff Position ( FSP ) EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, Earnings per Share. Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company is assessing the potential impact of this FSP on the earnings per share calculation.

**Hydron Technologies, Inc**

**Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2009 and 2008**

In June 2008, the FASB ratified EITF No. 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock ( EITF 07-5 ). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The Company is assessing the potential impact of this EITF 07-5 on the financial condition and results of operations.

In May 2009, Statement of Financial Accounting Standards No. 165 - Subsequent Events was issued. The objective of this Statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. Management intends to adopt this new standard with the filing of the second quarter interim financial statements. The adoption of this new standard is not expected to have a material impact on the financial statements of the Company.

**Note C Investment in Brand Builders Rx, LLC**

On November 11, 2008, the Company, entered into certain agreements with Brand Builders International, LLC, a Delaware limited liability company ( Harezi ) relating to a joint venture between the Company and Harezi to be formed as Brand Builders Rx, LLC, a Delaware limited liability company (the Joint Venture ). The Joint Venture was formed for the purpose of designing, marketing, selling, and managing certain technologies and products including, but not limited to, those contributed by the Company.

The terms of the Joint Venture's business and contractual relationship are governed by the following agreements, all of which are dated as of October 1, 2008: (i) Capital Contribution and Joint Venture Agreement (the Contribution Agreement ); (ii) Assignment and Assumption Agreement (the Assignment Agreement ); (iii) License Agreement; (iv) Limited Liability Company Agreement ( LLC Agreement ); (v) Buy-Sell Agreement; and (vi) Management Services Agreement (collectively, the Joint Venture Documents ).

Pursuant to the Capital Contribution Agreement, the Company contributed Two Hundred Thousand Dollars (\$200,000) in cash and assigned substantially all of its assets, other than certain excluded assets provided therein, and license or sublicense certain rights to the Company's intellectual property, subject to performance and payment obligations of the Joint Venture and to the terms of the License Agreement entered into between the Company and the Joint Venture. The Company assigned such assets valued at \$490,303 to the Joint Venture pursuant to the Assignment Agreement.

As contemplated by the Joint Venture Documents and discussed with Harezi, Harezi will contribute cash, financing, a new headquarters, marketing expertise, including public relations, filming of television commercials, print media production and the building of a domestic and international sales force.

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

Pursuant to the Company's LLC Agreement, the Company and Harezi each own a fifty percent (50%) member interest in the Joint Venture. The Joint Venture is controlled by the board of managers composed of four (4) managers, three of which are appointed by Harezi and one of which shall be appointed by the Company. The Company initially appointed Richard Banakus, the Company's Chairman and Interim President as its initial manager. Certain major decisions will require the unanimous approval of the Joint Venture's board of managers.

The Management Services Agreement between the Joint Venture and the Company entitles Harezi to a management fee in exchange for Harezi's marketing, administrative and management services. The management fee is equal to an additional percent (10%) of the total amount of distributions made to the members of the Joint Venture, other than distributions made for the purpose of paying taxes.

The Company and Harezi entered into a Buy-Sell Agreement providing for restrictions on transfer of its respective member interests in the Joint Venture, including right of first refusals, come-along rights and drag-along rights.

**Hydron Technologies, Inc****Notes to Consolidated Financial Statements (unaudited)****June 30, 2009 and 2008**

Assets assigned to the joint venture consisted of the following:

Trade accounts receivable	\$(12,000	)
Inventories	457,601	
Prepaid expenses	19,737	
Property and equipment , net	108,036	
Intangible assets, net	128,359	
Deposits	5,699	
Accounts payable	(72,252	)
Deferred revenues	(65,247	)
Accrued liabilities	(27,998	)
	541,935	
Loss on discontinued assets	(51,632	)
<b>Assets assigned to joint venture</b>	<b>490,303</b>	
Cash contributed	200,000	
<b>Investment in joint venture</b>	<b>690,303</b>	
Loss from interest in joint venture	(183,218	)
	507,085	
Loss on impairment of investment in joint venture	(264,020	)
	<b>\$ 243,065</b>	

Management is still analyzing details of the transaction that may require future adjustments.

**Note D Share Based Compensation**

The Company recognized \$10,780 and \$20,680 in share based compensation expense for the nine month period ended June 30, 2009 and 2008, respectively. An option to purchase 400,000 shares was granted to a consultant during the three months ended December 31, 2008 which were subsequently forfeited. An option to purchase 20,000 shares was granted to a director during the three months ended March 31, 2009. An option to purchase 100,000 shares was granted to four directors during the three months ended June 30, 2009. 65,000 options were granted to directors during the three months ended June 30, 2008.

For the stock-based awards granted on or after January 1, 2006, the Company is amortizing stock-based compensation expense on a straight-line basis over the requisite service period, which is generally a one year vesting period. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the period ended March 31, 2009:

The fair value of the options is the estimated value at November 1, 2008 using the Black-Scholes Option Pricing Model with the following weighted average assumptions: Exercise price of \$0.0195; expected volatility of 451% a risk free interest rate of 2.6%; and expected term of 5

years.

The fair value of the options is the estimated value at January 9, 2009 using the Black-Scholes Option Pricing Model with the following weighted average assumptions: exercise price of \$0.0415; expected volatility of 462% a risk free interest rate of 1.5%; and expected term of 5 years.

The fair value of the options is the estimated value at May 1, 2009 using the Black-Scholes Option Pricing Model with the following weighted average assumptions: exercise price of \$0.01; expected volatility of 826% a risk free interest rate of 2.0%; and expected term of 5 years.

12

---

**Hydron Technologies, Inc****Notes to Consolidated Financial Statements (unaudited)****June 30, 2009 and 2008**

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

**Note 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:

	<b>June 30, 2009</b>	<b>September 30, 2008</b>
Dividends payable	\$ 83,163	\$ 83,163
Director fees payable	152,270	138,520
Professional fees	21,260	40,500
Interest	21,651	21,651
Other	5,692	9,198
	<b>\$ 284,036</b>	<b>\$ 293,032</b>

**Note F Equity***Common Stock*

For the three month period ended June 30, 2009 and 2008, the Company recorded stock-based compensation expense of \$2,150 and \$6,163 respectively.

For the nine month period ended June 30, 2009 and 2008, the Company recorded stock-based compensation expense of \$10,780 and \$20,680 respectively.

**Note G Management's Plan**

As a consequence of its participation in the Joint Venture, the Company's need for cash is no longer tied to funding the working capital and other capital requirement of an operating business. Other than the obligation to pay dividends on the Series A Preferred Shares to the extent of distributions received from the Partnership from funds legally available, the Company will have only certain administrative costs, including legal and accounting costs relating to the preparation and filing of periodic reports with the Securities and Exchange Commission. As a result, the Company believes that its current capital balances will be sufficient to meet its working capital needs for at least the next year. Additionally, while the Company has retained certain liabilities, it has retained sufficient cash to meet them should they become payable and due.

The Company's working capital was approximately (\$169,000) at June 30, 2009, including cash and cash equivalents of approximately \$132,000. Cash used in operating activities was \$107,376 and cash used in investing activities was \$200,000 during the nine month period ended June 30, 2009.

**Hydron Technologies, Inc**

**Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2009 and 2008**

***Hydron Continuing Operations***

The Company's continuing operations include:

1. Its 50% investment in the Joint Venture
2. Its ownership and licensing of its patented intellectual property
3. Its majority ownership of the Partnership

***Investment in Brand Builders Rx, LLC, a Delaware limited liability company (the Joint Venture )***

The Company owns a 50% interest in the Joint Venture and under the terms of the Joint Venture Agreement, will share in 50% of the Joint Venture net profits if earned. The Company's risk is limited to its original investment.

***Licensing of the Company's Patented Intellectual Property***

The Company continues to own its patented intellectual property ( IP ) but has licensed its use according to the terms agreed to in the Joint Venture Agreement. With the exception of the super-oxygenation technology the licensing is royalty free to the Joint Venture. The Joint Venture is however responsible to the Company for any royalties required to be paid by Hydron under the Valera Agreement.

***Majority ownership of Hydron Royalty Partners Ltd., LLLP (the Partnership )***

The Company will continue to serve as General Partner and own the majority ownership percentage of the Partnership.

**Note H Related Party**

During the year ended September 30, 2008, the Company borrowed \$40,000 from Hydron Royalty Partners Ltd., LLLP, a Florida limited liability partnership (the Partnership); The Company is the general partner of the Partnership which includes three directors of the Company and several significant shareholders of the Company as limited partners. Under the terms of the promissory note evidencing the loan, the partnership



may, but is not obligated to, lend up to an aggregate \$40,000 in principal amount to the Company. Amounts lent bear interest at 10% per annum. The outstanding principal and interest on the note is payable on December 6, 2008. The loan is still outstanding as of July 31, 2009

**Note I Discontinued Operations**

As described in Note A, on November 11, 2008, the Company, entered into certain agreements with Brand Builders International, LLC, a Delaware limited liability company ( Harezi ) relating to a joint venture between the Company and Harezi to be formed as Brand Builders Rx, LLC, a Delaware limited liability company (the Joint Venture ). The Joint Venture was formed for the purpose of designing, marketing, selling, and managing certain technologies and products including, but not limited to, those contributed by the Company.

Pursuant to the Capital Contribution Agreement, the Company has agreed to contribute Two Hundred Thousand Dollars (\$200,000) in cash and assign substantially all of its assets, other than certain excluded assets provided therein, and license or sublicense certain rights to the Company s intellectual property, subject to performance and payment obligations of the Joint Venture and to the terms of the License Agreement entered into between the Company and the Joint Venture. The Company assigned such assets valued at \$490,303 to the Joint Venture pursuant to the Assignment Agreement. The Company realized a loss from discontinued operations of \$51,632.

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

### *FORWARD LOOKING INFORMATION*

The following discussion and analysis of the Company's financial condition and results of operations should be read with the consolidated financial statements and related notes contained in this quarterly report on Form 10-Q (Form 10-Q). All statements other than statements of historical fact included in this Form 10-Q are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different than any expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential, continue, or the or other comparable terminology. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: 1. General economic factors including, but not limited to, changes in interest rates and trends in disposable income; 2. Information and technological advances; 3. Cost of products sold; 4. Competition; and 5. Success of marketing, advertising and promotional campaigns. The Company is subject to specific risks and uncertainties related to its business model, strategies, markets and legal and regulatory environment. You should carefully review the risks described in this Form 10-Q and in other documents the Company files from time to time with the SEC. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-Q. The Company undertakes no obligation to publicly release any revisions to the forward-looking statements to reflect events or circumstances after the date of this document.

### *Business*

In November 2003, the Company was granted a patent on its new oxygenation technology that provides a method for delivering oxygen into the skin and tissue at depths considered medically therapeutic. This unique technology utilizes topical applications, eliminating reliance on the blood stream. Preliminary research was conducted at the University of Massachusetts and Florida Atlantic University and the process to obtain FDA approval was initiated. Management plans to research additional medical applications if and when Hydron obtains FDA approval.

The Company raised \$1.1 million in December 2003 in a non-brokered private placement exempt from registration under the Securities Act to fund the initial research and initiate the lengthy FDA approval process. As research results begin to quantify the broad applications of this technology and the FDA hurdles are passed, management anticipates that Hydron will attract key strategic partners and new investment money will become available. Management also expects that product development will accelerate in medical areas such as wound and burn treatment, and skin care applications such as scar reduction, acne, and diaper rash treatment, oral health, etc.

In August 2004, Hydron, as general partner, formed the Partnership for the purpose of funding existing royalty obligations and a portion of future royalty obligations in consideration of sharing future royalty income that may arise from Hydron's agreement with Valera. The Partnership completed a non-brokered private placement of Limited Partnership Interest to ten accredited investors including Hydron's Chairman, Richard Banakus and two other Hydron Directors, Ronald J. Saul and Donna M. Murphy. Each limited partner invested \$30,000 or an aggregate of \$300,000 for a 49.999% interest in the Partnership. The establishment of the Partnership allowed Hydron to meet its current and future royalty obligations and retain the possibility of a significant royalty income stream opportunity.

In late January 2005, the Company refocused its efforts to skin care formulations and sales. On July 1, 2005, the Company purchased CRI, Inc. and BRI, Inc., related companies providing both skin care formulation consulting and a newly started contract manufacturing business. The Company believed that the vertical capabilities added by this acquisition would be beneficial to the Company as it expands beyond its historical

base.

In January 2006, the Company was granted U.S. Patent Number 6,984,391 for its Compositions and Method for Delivery of Skin Cosmeceuticals, which also applies to a new acne treatment system. The Company believes that this unique emulsion system has significant advantages over the widely used surfactant emulsions employed by most skin care formulators and manufacturers, and will seek licensing opportunities whenever possible.

15

---

On November 11, 2008, the Company entered into certain agreements with Brand Builders International, LLC, a Delaware limited liability company ( Harezi ) effective October 1, 2008, relating to a joint venture between the Company and Harezi to be formed as Brand Builders Rx, LLC, a Delaware limited liability company (the Joint Venture ). The Joint Venture was formed for the purpose of designing, marketing, selling, and managing certain technologies and products including, but not limited to, those contributed by the Company.

### ***Liquidity***

As a consequence of its participation in the Joint Venture, the Company's need for cash is no longer tied to funding the working capital and other capital requirement of an operating business. Other than the obligation to pay dividends on the Series A Preferred Shares to the extent of distributions received from the Partnership from funds legally available, the Company will only have certain administrative costs, including legal and accounting costs relating to the preparation and filing of periodic reports with the Securities and Exchange Commission. As a result, the Company believes that its current capital balances will be sufficient to meet its working capital needs for at least the next year. Additionally, while the Company has retained certain liabilities, it has retained sufficient cash to meet them should they become payable and due.

The Company's working capital was approximately (\$169,000) at June 30, 2009, including cash and cash equivalents of approximately \$132,000. Cash used by operating activities was \$107,376 and cash used in investing activities was \$200,000 during the nine months ended June 30, 2009.

### ***Hydron Continuing Operations***

The Company's continuing operations include:

1. Its 50% investment in the Joint Venture
2. Its ownership and licensing of its patented intellectual property
3. Its majority ownership of the Partnership

### ***Investment in Brand Builders Rx, LLC, a Delaware limited liability company (the Joint Venture )***

The Company owns a 50% interest in the Joint Venture and under the terms of the Joint Venture Agreement, will share in 50% of the Joint Venture net profits if earned. The Company's risk is limited to its original investment.

### ***Licensing of the Company's Patented Intellectual Property***

The Company continues to own its patented intellectual property ( IP ) but has licensed its use according to the terms agreed to in the Joint Venture Agreement. With the exception of the super-oxygenation technology the licensing is royalty free to the Joint Venture. The Joint Venture is however responsible to the Company for any royalties required to be paid by Hydron under the Valera Agreement.

*Majority ownership of Hydron Royalty Partners Ltd., LLLP (the Partnership )*

The Company will continue to serve as General Partner and own the majority ownership percentage of the Partnership.

*Results of Operations*

**Results of Operations - 2009 versus 2008**

Royalty expenses for the nine months ended June 30, 2009 were \$14,049 representing an increase of \$8,348 or 146% from royalty expense of \$5,701 for the nine months ended June 30, 2008. The increase is due to use of an over accrual in the prior year. An aggregate of \$3,204 was accrued and unpaid as of June 30, 2009. This amount is adequate to cover any royalties that are payable through June 2009.

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

Selling, general and administrative ( SG&A ) expenses for the nine months ended June 30, 2009 were \$193,250 representing an increase of \$108,213 or 127% from SG&A expenses of \$85,037 for the nine months ended June 30, 2008. The increase is due primarily to increased professional fees due to the joint venture and an increase in bad debt of \$118,969 due to a 100% allowance being taken on the amount due from the joint venture.

Amortization expense was \$10,033 for the nine months ended June 30, 2009, a decrease of \$3,356 or 25% from \$13,389 for the nine months ended June 30, 2008.

Net interest income was \$13 for the nine months ended June 30, 2009 an increase of \$62,742 or 100% compared to net interest (expense) of (\$62,729) for the nine months ended June 30, 2008. The decrease in interest expense was due primarily to the interest on the loan payable and amortization of related debt discount in the prior period.

Minority interest in net loss for the nine months ended June 30, 2009 was \$17,716 compared to \$15,656 for the nine months ended June 30, 2008. This minority interest is created from a consolidated limited liability partnership, Hydron Royalty Partners Ltd., LLLP, established by the Company in August 2004.

Loss from interest in joint venture for the nine months ended June 30, 2009 was \$183,218 compared to \$0 the nine months ended June 30, 2008. This interest is created from a 50% interest in Brand Builders Rx, LLC.

Loss on impairment of investment for the nine months ended June 30, 2009 was \$264,020 compared to \$0 the nine months ended June 30, 2008. This loss is created from a 50% reserve being taken on the investment in the joint venture.

The Company had a net loss from continuing operations of \$646,841 for the nine months ended June 30, 2009, representing an increase of \$495,641 or 328% from the net loss of \$151,200 for the nine months ended June 30, 2008, primarily as a result of the factors discussed above.

### **Application of Critical Accounting Policies**

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

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

**Share Based Payments**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123(R), Share-Based Payment, which replaces SFAS No. 123 and supersedes Accounting Principles Board ( APB ) Opinion No. 25. Under SFAS No. 123(R), companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share-based compensation arrangements include stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. In March 2005 the SEC issued Staff Accounting Bulletin No. 107, or SAB 107 . SAB 107 expresses views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. On April 14, 2005, the SEC adopted a new rule amending the compliance dates for SFAS 123R. Companies may elect to apply this statement either prospectively, or on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under SFAS 123. Effective with our fiscal 2006, we adopted the provisions of SFAS No. 123R and related interpretations as provided by SAB 107 prospectively. As such, compensation cost is measured on the date of grant as its fair value. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant.

#### **Item 4T. Controls and Procedures**

##### **Disclosure Controls and Procedures**

Our Chairman of the Board and Interim President is responsible for establishing and maintaining disclosure controls and procedures for us. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this report, is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and to reasonably assure that such information is accumulated and communicated to our management, including our Chairman of the Board and Interim President who also acts as our principal financial and principal accounting officer, to allow timely decisions regarding required disclosure.

Our management 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 there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls 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.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of June 30, 2009, the end of the period covered by this report, our management concluded its evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. As of the evaluation date, our Chairman of the Board and Interim President who also serves as our principal financial and accounting officer, concluded that we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and regulations, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

##### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2008. In making this assessment, our management used criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control Over Financial Reporting – Guidance for Smaller Public Companies.

Our management has concluded that, as of June 30, 2009 during our assessment of the design and the effectiveness of internal control over financial reporting as of June 30, 2009, management identified the following material weaknesses:



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

Top management has not developed a clear statement of ethical value and set the standard of conduct for financial reporting;

There is no documentation that the board of directors monitored or provided oversight responsibility related to financial reporting and related internal controls and considered its effectiveness;

There are no formal written policies and procedures related to financial reporting;

There is no formal documentation that management specified financial reporting objectives to enable the identification of risks, including fraud risks;

The Company lacked the resources and personnel to implement proper segregation of duties or other risk mitigation system.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the registrant's financial reporting. A material weakness may be a group of significant deficiencies which, when considered together creates the potential for material financial reporting misstatement.

The Company intends to gradually improve its internal controls over financial reporting to the extent that it can allocate resources to such improvements. It intends to prioritize the design of its internal controls over financial reporting starting with its control environment and risk assessments and ending with control activities, information and communication activities, and monitoring activities.

## **Part II. Other Information**

### **Item 1. Legal Proceedings**

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

### **Item 2. Unregistered Sales Of Equity Securities and Use of Proceeds**

None

### **Item 3. Defaults Upon Senior Securities**

None

### **Item 4. Submission of Matters to a Vote of Security Holders**

None

### **Item 5. Other Information**

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

Subsequent to March 31, 2009, the Company and BBRX became aware of potentially fraudulent transactions and both parties are investigating the nature, perpetrators, and scope of the fraudulent activity. Based on our findings to date, the Company believes that the financial statements as reported herein and previously reported are not materially misstated as a result of these suspected fraudulent transactions.

### Item 6. Exhibits

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

- 3.1 Restated Certificate of Incorporation of Dento-Med Industries, Inc. ( Dento-Med ), as filed with the Secretary of State of New York on March 4, 1981. (1)
- 3.2 Certificate of Amendment of the Certificate of Incorporation of Dento-Med as filed with the Secretary of State of New York on September 7, 1984. (2)
- 3.3 By-laws of the Company, as amended March 17, 1988. (3)
- 3.4 Certificate of Change of Dento-Med as filed with the Secretary of State of New York on July 14, 1988. (2)
- 3.5 Certificate of Amendment of the Restated Certificate of Incorporation of Dento-Med, as filed with the Secretary of State of New York on November 14, 1988. (4)
- 3.6 Certificate of Amendment of the Restated Certificate of Incorporation of Dento-Med, as filed with the Secretary of State of New York on July 30, 1993. (5)

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

- 3.7 Certificate of Amendment of the Restated Certificate of Incorporation of Hydron Technologies, Inc., as filed with the Secretary of State of New York on April 10, 2002. (2)
- 3.8 Certificate of Amendment of the Certificate of Incorporation dated July 30, 2008, as filed with the Secretary of State of the State of New York. (24)
- 4.1 Non-Qualified Stock Option Plan. (6)
- 4.2 Registration Rights Agreement dated July 11, 2002, by and between Hydron Technologies, Inc. and Life International Products, Inc. (2)
- 4.3 Warrant Agreement dated November 14, 2003 between Hydron Technologies, Inc. and the parties named therein. (2)
- 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year. (18)
- 7.1 Letter of Sherb & Co LLP dated May 25, 2007 addressed to the United States Securities Exchange Commission. (15)
- 10.1 Subscription Agreement dated November 22, 2002 between Hydron Technologies, Inc. and the subscribers named therein. (2)
- 10.2 Subscription Agreement dated September 31, 2003 between Hydron Technologies, Inc. and the subscribers named therein. (2)
- 10.3 Agreement dated July 11, 2002 between Hydron Technologies, Inc. and Life International Products, Inc. (2)
- 10.4 1997 Nonemployee Director Stock Option Plan. (7)
- 10.5 Bridge Loan Term Sheet for Interim Loans between Hydron Technologies, Inc and Members of the Board of Directors. (2)
- 10.6 2003 Stock Plan (8)
- 10.7 Note dated June 14, 2005 in the principal amount of \$50,000 payable to Richard Banakus (9)
- 10.8 Note dated June 14, 2005 in the principal amount of \$50,000 payable to Ronald J. Saul and Antonette G. Saul, jointly (9)
- 10.9 Note dated June 14, 2005 in the principal amount of \$50,000 payable to Regis Synan (9)
- 10.10 Common Stock Purchase Warrant dated June 14, 2005 in favor of Richard Banakus (9)
- 10.11 Common Stock Purchase Warrant dated June 14, 2005 in favor of Ronald J. Saul and Antonette G. Saul, jointly (9)

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10-Q

- 10.12 Common Stock Purchase Warrant dated June 14, 2005 in favor of Regis Synan (9)
- 10.13 Purchase and Sale Agreement by and among Clinical Results, Inc., David Pollock and Douglas Reitz and Hydron Technologies, Inc., dated July 1, 2005 (10)
- 10.14 Employment Agreement for David Pollock (10)
- 10.15 Employment Agreement for Richard Douglas Reitz (10)

20

---

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

- 10.16 Form of Assignment (11)
- 10.17 Subscription Agreement dated January 31, 2007 between Hydron Technologies, Inc. and Richard Banakus (13)
- 10.18 Subscription Agreement dated January 31, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.19 Subscription Agreement dated February 5, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.20 Common stock Purchase Warrant dated February 1, 2007 in favor of Richard Banakus (13)
- 10.21 Common stock Purchase Warrant dated February 1, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.22 Common stock Purchase Warrant dated February 5, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (13)
- 10.23 Subscription Agreement dated March 21, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (14)
- 10.24 Common stock Purchase Warrant dated March 21, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (14)
- 10.25 Subscription Agreement dated July 18, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly (16)
- 10.26 Common stock Purchase Warrant dated July 18, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (16)
- 10.27 Promissory note dated August 14, 2007 in the principal amount of twenty five thousand dollars (\$25,000) payable to Ronald J Saul and Antonette G. Saul, jointly. (17)
- 10.28 Subscription Agreement dated October 3, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly for the purchase of 200,000 units paid by the cancellation of \$25,000 promissory note.(19)
- 10.29 Common stock Purchase Warrant dated October 3, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (19)
- 10.30 Subscription Agreement dated October 3, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly for the purchase of 100,000 units paid in cash.(19)
- 10.31 Common stock Purchase Warrant dated October 3, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (19)
- 10.32

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

Subscription Agreement dated October 30, 2007 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly for the purchase of 400,000 units.(20)

- 10.33 Common stock Purchase Warrant dated January 23, 2008 in favor of Ronald J. Saul and Antonette G. Saul, jointly (21)
- 10.34 Subscription Agreement dated January 23, 2008 between Hydron Technologies, Inc. and Ronald J. Saul and Antonette G. Saul, jointly for the purchase of 200,000 units.(21)
- 10.35 Common stock Purchase Warrant dated January 23, 2008 in favor of Richard Banakus (21)
- 10.36 Subscription Agreement dated January 23, 2008 between Hydron Technologies, Inc. and Richard Banakus, for the purchase of 200,000 units.(21)

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

- 10.37 Common stock Purchase Warrant dated October 30, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (20)
- 10.38 Promissory note Dated April 9, 2008 between Hydron Technologies, Inc. and Richard Banakus for the principal amount of forty thousand dollars (\$40,000). (22)
- 10.39 Subscription Agreement dated April 9, 2008 between Hydron Technologies, Inc. and Richard Banakus for the purchase of 1 unit. (22)
- 10.40 Common stock Purchase Warrant dated April 9, 2008 in favor of Richard Banakus (22)
- 10.41 OTCC Delinquency Notification dated May 21, 2008. (23)
- 10.42 Promissory note Dated June 6, 2008 between Hydron Technologies, Inc. and Hydron Royalty Partners Ltd, LLLP for the principal amount of forty thousand dollars (\$40,000).
- 10.43 Subscription Agreement between Hydron Technologies and Richard Banakus for the purchase of 5,270 Series A Preferred Shares [paid in cash and cancellation of promissory notes of the Company in the original principal amounts of \$50,000 and \$40,000]. (24)
- 10.44 Subscription Agreement between Hydron Technologies and Ronald J. Saul and Antonette G. Saul, jointly for the purchase of 1,500 Series A Preferred Shares [paid in cash and cancellation of promissory notes in the original principal amounts of \$100,000 and \$50,000]. (24)
- 10.45 Subscription Agreement dated between Hydron Technologies and Karen Gray for the purchase of 100 Series A Preferred Shares (paid in cash) (24)
- 10.46 Subscription Agreement dated January 31, 2007 between Hydron Technologies, Inc. and Richard Banakus
- 10.47 Subscription Agreement dated January 31, 2007 between Hydron Technologies and Ronald J. Saul and Antonette G. Saul, jointly
- 10.48 Subscription Agreement dated February 5, 2007 between Hydron Technologies and Ronald J. Saul and Antonette G. Saul, jointly
- 10.49 Common Stock Purchase Warrant dated February 1, 2007 in favor of Richard Banakus
- 10.50 Common Stock Purchase Warrant dated February 1, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly
- 10.51 Common Stock Purchase Warrant dated February 5, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly
- 16. Letter from Daszkal Bolton LLP dated December 4, 2006 to the Securities and Exchange Commission (12)
- 31.1 Certification of Chief Executive Officer, Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith)



Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10-Q

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

99. Press Release dated July 6, 2005 incorporated by reference to Form 8-K filed on July 8, 2005.

22

---

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

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

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10-Q

- (20) Incorporated by reference to Form 8-K filed October 30, 2007
- (21) Incorporated by reference to Form 8-K filed January 23, 2008
- (22) Incorporated by reference to Form 8-K filed April 15, 2008
- (23) Incorporated by reference to Form 8-K filed May 3, 2008
- (24) Incorporated by reference to Form 8-K filed August 6, 2008
- (25) Incorporated by reference to Form 8-K filed November 18, 2008

**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

Interim President

Principal Financial and Accounting Officer

Dated: August 14, 2009