HYDROMER INC
Form 10-K
November 16, 2012

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

_____

FORM 10-K

_____

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

For the fiscal year ended: June 30, 2012

or

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

For the transition period from: _____ to _____

_____

HYDROMER, INC.

(Exact name of registrant as specified in its charter)

_____

New Jersey	000-31238	22-2303576
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

35 Industrial Parkway, Branchburg New Jersey 08876-3424
(Address of Principal Executive Offices) (Zip Code)

(908) 722-5000
(Registrant's telephone number, including area code)

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

None

Title of each class
Name of each exchange on which registered

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

Common Stock Without Par Value

Title of each class

Name of each exchange on which registered

_____

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the Registrant at September 18, 2012 was approximately $3,059,423

The number of shares of Registrant's Common Stock outstanding on September 18, 2012 was 4,772,318.

Portions of the Audited Financial Statements for the year ended June 30, 2012 are incorporated by reference in Part II of this report. Portions of the Proxy Statement of Registrant date November 6, 2012 are incorporated by reference in Part III of this report.

FORWARD-LOOKING STATEMENTS

This Form 10-K report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, among other things, business strategy and expectations concerning industry conditions, market position, future operations, margins, profitability, liquidity and capital resources. Forward-looking statements generally can be identified by the use of terminology such as "may," "will," "expect," "intend," "estimate," "anticipate" or "believe" or similar expressions o negatives thereof. These expectations are based on management's assumptions and current beliefs based on currently available information. Although the Company believes that the expectations reflected in such statements are reasonable, it can give no assurance that such expectations will be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report on Form 10-K and the Company does not have any obligation to update the forward-looking statements. The Company's operations are subject to a number of uncertainties, risks and other influences, many of which are outside its control, and any one of which, or a combination of which, could cause its actual results of operations to differ materially from the forward-looking statements.

PART I

Item 1. BUSINESS

General

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

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

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

The Company also owns various trademarks, including AQUAMERE®, a cosmetic intermediate with water resistant film forming properties; AQUATRIX®, a cosmetic hydrogel; BIOSEARCH®, medical device product lines; Dermaseal®, a dermal barrier film product for the prevention of contact dermatitis; DRAGONHYDE®, hoof enhancement products; HYDROMER®, hydrophilic and hydrophobic coatings; Sea-Slide®, a coating for watercraft hulls; and T-HEXX®, a barrier teat dip product group for the prevention of mastitis in dairy animals.

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

MEDICAL

From its inception in 1980 to mid-1984, the Company was primarily engaged in R&D activities related to Hydromer

Coating used on medical devices. Since then and until the acquisition of BMPI, the Company's business in the medical field consisted of the sale of lubricious coatings and the licensing of its lubricious coating technologies. With the acquisition of BMPI in February 2000, the Company was able to offer a horizontally integrated breadth of services including medical device manufacturing, contract coating, equipment building and design, and R&D servicing. However, in 2009, the Company sold most of its OEM medical device product lines in order to focus on its coatings technologies, effectively exiting the OEM medical device manufacturing business.

The Company's coatings technologies include its hydrophilic lubricious coatings, biostatic/anti-microbial coatings, cell anti-mitosis and anti-thrombogenic coatings and more recently, cell adhesion promoting coatings. During the fiscal year ending June 30, 2009, the Company launched two new coatings: a cell adhesion promoting coating and our third generation anti-microbial coating.

HYDROMER Coatings: Lubricious / Anti-microbial / Anti-thrombogenic / Cell mitosis / Cell Adhesion

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

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

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

In 2006, the Company introduced new technology on its cell anti-mitosis coatings which decreases cell proliferation and cell adhesion and prevents platelet adhesion. This coating appears to have the attributes needed for a cardiovascular stent to combat restenosis and late stage thrombosis. In vitro (lab) studies have yielded positive results. Leveraging on this new technology, the Company developed a coating that promotes cell proliferation, but better epithelization.

The Company recently entered into a Research and License Agreement on its new Cell Adhesion coating. It is being evaluated for use on cardiovascular absorbable devices.

Stand-still and License/Supply and Support Agreements

A portion of the Company's revenues is derived from stand-still and license agreements. Stand-still agreements provide customers the right for a finite period of time (i) to use the Hydromer process to determine whether the customer's products lend themselves to treatment with the process and (ii) to test market such products. The stand-still agreements can also provide the customers the right to subsequently enter into a license or supply and support agreement with the Company and to market the product(s) treated with Hydromer, which typically provides the Company an initial flat fee, followed by periodic royalty payments or support fees based on sales.

Supply and Support Agreements

In order to avail our customers of a continued material source or technical support on our products, certain supply or support agreements may be entered into. Depending on the specific requirements of each agreement, the Company would provide continued support in terms of product availability or technical know-how.

As of June 30, 2012, the Company has supply and support agreements with 30 companies covering the application or availability of Hydromer coatings to the following devices:

- angioplasty balloon catheters,
- biliary and pancreatic stents,

- cardiovascular implantables,
- cardiovascular microcatheters,
- central venous catheters,
- embolization delivery devices,
- enteral feeding products,
- female contraceptive devices,
- foley catheters,
- guidewires,
- guiding and umbilical catheters,
- infusion microcatheters,
- inter/intra-ocular lenses,
- intra-occular lense inserts,
- liposuction devices,
- neurovascular microcatheters,
- PTCA catheters,
- urinary catheters,
- certain urological devices, and
- certain vascular devices.

The Company is actively seeking new licensing opportunities and/or supply and support agreements.

Hydrogels, Drug Delivery, Wound Dressing

Applications of the Company's hydrogels for wound care, implants, drug delivery, burn care, ultrasonic couplants and cosmetic uses are available but not yet commercialized.

The Company's hydrogel technology offers biocompatibility, flexibility, and ease of use and processing. It also allows for the stabilization of biomolecules, cell cultures, drugs and other active substances without potentially damaging external energy sources. It is absorbent, inherently self-adhesive but peels away cleanly and is naturally soothing. Other than our bio-adhesives and medical coatings, which are one-part systems, to form the gel entails simply to mix the two parts together: no heat, no chemical cross linkers or expensive high energy processing is required. Many competitive technologies are much more process intensive and require external energy to crosslink. The Company believes these products are synergistic to our existing hydrogel technologies, and offer further opportunities in internal and topical actives delivery. The Company has a pilot coating machine to facilitate the commercialization of its hydrogel technologies. The Company is exploring other medical and dental as well as cosmetic applications for this technology.

The Company has 510K notices to the FDA on its hydrophilic polyurethane foam technology for medical use applications in the U.S. as well as a patent on its chitosan-PVP hydrogel technology.

Following two years of development and human clinical studies, it is expected that one of the Company's Hydrogel technologies will soon be ready for market. It currently is in the final stages of FDA review.

OEM Medical Devices

The Company offers 510K/CE marked medical devices on an OEM basis and private label through its ISO 13485:2003 certified and FDA registered Biosearch Medical Products subsidiary. Most recently, the Company produced bipolar coagulation probes; placement catheters, biliary stents; jejunal and enteral feeding accessories; guidewires; biofeedback devices for fecal and urinary incontinence; and other endoscopic accessories. The bipolar coagulation probe and biliary stent product lines were sold to Merit Medical System, Inc. in 2009, and in 2010, the Company completed the transition period of its sales of the Jejunostomy Catheter and Nasogastric Feeding Catheter business to Forefront Medical Technology (PTE) Ltd. Currently remaining is its biofeedback business.

HYDROMER Coating Services

The acquisition of BMPI in 2000 allowed for the Company to realize another source of revenues: Coating Services. Utilizing the acquired medical device manufacturing know-how and by applying its coatings technologies, the Company began offering coating services, in which the Company coats third-party devices with its Hydromer coatings. The Company's knowledge in coatings technologies allows it to coat various types of material, such as silicone, stainless steel, Pebax and polypropylene cost effectively, whereas some of the competition is unable to.

Global customers are using this service in the urology, cardiology and neurovascular markets.

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

R&D and Engineering Services

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

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

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

INDUSTRIAL/COMMERCIAL

Hydromer Anti-Fog/Condensation Control is an optically clear coating which prevents the accumulation of vision-obscuring condensation under high humidity conditions. The Company is selling this material to manufacturers of greenhouse panels, refrigerator freezer doors, industrial and medical safety and swim goggles, aircraft windows, automotive headlight assemblies and gauge and meter manufacturers in the U.S. and internationally, including China. The Company also has food grade Anti-Fog coatings formulated with materials that are generally recognized as safe for food contact as confirmed by independent laboratory extraction testing.

The Company also offers a Sea-Slide coating that reduces friction between the hull and water, and can be used over most anti-fouling paints. Independent testing has confirmed that this technology significantly improves fuel economy and the hull speed of watercraft. Sea-Slide products were marketed through HammerHead Products, Inc. until 2010 when the Company re-attained its distribution rights.

COSMETICS

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

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

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

ANIMAL HEALTH

The Company's polymer technology was used to launch the Company's entry into the animal health field to combat clinical and sub-clinical mastitis, a problem that costs U.S. dairy farmers an estimated $2 billion per year, and farmers worldwide an estimated $5 billion. Barrier dips and sprays utilizing *T-HEXX* technology offered dairy farmers exceptional value and unsurpassed protection as the first no-drip and water resistant barrier products on the market preventing water containing mastitis-causing organisms, including mycoplasma, from reaching the inner teat surface. The Company has received three patents for its unique barrier teat dip compositions with an application on a fourth patent pending.

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

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

In fiscal 2009, the Company launched a T-HEXX DRY external teat sealant for organic dairies: T-HEXX DRY Green-S with natural actives. The Company also launched a new product line of T-HEXX Syrup concentrated post-milking barrier teat dips which requires just a blending with water, reducing logistics and shipping costs to our customers, while maintaining the superior performance that existing T-HEXX products provide.

During fiscal 2010, the Company launched T-HEXX DRY Naturel™ External Teat Sealant, a triclosan-free external teat sealant for dry cows, Sani-Spray™ non-barrier dips and sprays and Dragonhyde® Hoof Bath Concentrate ("Dragonhyde HBC"). Dragonhyde HBC competes against Copper Sulfate and Formalin in hoof baths yet it does not contain such heavy metals or carcinogenic products. An independent clinical study conducted by Cornell University and published in the August 2010 edition of the Journal of Dairy Science concluded that Dragonhyde HBC outperformed typical Copper Sulfate and Formalin usage. A complementary dissolvable hoof bath powder, Dragonhyde DUST is being launched in the winter/fall of 2012.

The Company has invested significantly in clinical research, patents, promotion, vendor partnerships and advertising via print media, trade shows and the Internet to support this business and continues to do so: both domestically as well as abroad. New products continue to be developed.

Products

Coating solutions for use on medical devices, cosmetic intermediaries, hydrogels and teat barrier dips/sprays are manufactured and sold by the Company to its customers. The Company is selling anti-fog solutions to manufacturers

of greenhouse panels, refrigerator freezer doors, swim goggles, industrial safety equipment, aircraft windows and meter covers, both in the U.S. and foreign countries. Until 2010, the Company also sold OEM medical devices through its Biosearch Medical Products subsidiary.

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

Dependence Upon Customers

The Company derives its revenues from two primary business segments: (1) polymer research and the products derived there- from, and (2) medical products. The Company does not have any significant customer concentration.

Potential Applications

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

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

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

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

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

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

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

2. *Ability to be Complexed with Other Functional Chemicals.* The Hydromer hydrophilic polymer coating can be complexed with other chemicals. For example, Hydromer coating complexed with iodine forms an effective anti-microbial barrier. The Company believes that this unique feature would lend itself to application on a wide variety of currently marketed medical products, including vascular stents, foley catheters, wound drains, wart and corn dressings, burn dressings, intravenous catheters, surgical dressings and adhesive bandages. One of the Company’s patents in the coating area, issued in April 2000, involves the covalent bonding of infection resistant materials into the coating, providing a non-leaching, anti-infective surface.

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

Research and Development

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

Competition

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

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

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

Marketing

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

1. *Commercialization of its existing technologies:* The Company intends to expand its efforts to market its current technology to the medical, industrial, personal care and animal health markets. The Company has expanded its capabilities to prototype and manufacture for customers to demonstrate the value of Hydromer technology. The Company will also seek opportunities to apply its technology in new applications where the technology will offer a benefit. Further, the Company will seek customers for technologies that have been developed but are not currently generating revenue, capitalize on the technology that has been created through its R&D efforts and expand the application of current technologies.
2. *Sale of Development Services:* The Company intends to continue moving its effort away from straight technology licensing and toward contract product development, contract manufacturing, supply and support arrangements and coating services (see "5. Coating Services"). The Company has significant expertise in polymer development and applications. By exhibiting at an increased number of trade shows in the medical device fields, the Company expects to generate interest in its technology and products, with a view toward acting as an outside product development arm and development supplier for companies in these fields.
3. *Joint Development:* The Company will continue to seek joint development programs, co-marketing programs and other business arrangements with potential partners.
4. *Licensing/Support Services:* The Company will continue its endeavors to license or make available its technology to current market leaders in the medical device, pharmaceutical and other fields, whereby the Company will grant exclusive or non-exclusive rights for the Hydromer coating treatment of existing or new products, and the development of specific products utilizing its foam and hydrogel technology under its patents. In return, the Company generally would earn royalties/support fees based on sales of such treated or new products. Such agreements will usually be very narrow. The activities leading to the consummation of an agreement normally are lengthy and require establishing a scientific dialogue with potential customers, treating samples supplied by that customer with Hydromer coatings, determining if the treatment is feasible and cost effective, testing the coated products in a laboratory and then negotiating a mutually acceptable option agreement. A stand-still fee may be paid by the customer which would give the customer exclusive rights to use the Hydromer treatment on the specified product for a defined time period. During such period, the customer can test market the coated product and/or determine its ability to treat the product in its own manufacturing process. If the customer determines that the subject product should be treated with Hydromer coating on a commercial basis, it may either perform the Hydromer coating treatment itself under a support agreement with the Company, through the Company's Contract Coating unit or it may have a third party perform the Hydromer coating treatment.
5. *Coating Services:* The Company will serve the customer who needs products coated with lubricious or anti-fog coatings in production runs that are economically feasible without substantial investments in fixturing and automation. Typically this would be prototypes or runs of low volume, high value products. Higher volume products could be accommodated if they were physically small and did not require extensive fixturing or because for technical reasons they could not be automated and were of high enough value to warrant the added cost. The Company will pursue large volume projects if they fall within a technical area where the Company has particular expertise.

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

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

Patents and Trademarks

As of June 30, 2012, the Company has six U.S. patents, two U.S. applications and various foreign counterparts. The Company’s existing patents and patent applications cover hydrophilic coatings and foams, hydrophilic polymer blends, anti-bacterial medical and cosmetic materials, non-leaching biostatic coatings, barrier film and barrier teat dip and hoof bath compositions and Chitosan gels and others.

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

Employees

As of June 30, 2012, the Company and its subsidiary had thirty-six active full-time employees. The Chief Executive Officer is Manfred F. Dyck, who is also Chairman of the Board. The Company does not have a collective bargaining agreement with any of its employees and considers its relationship with its employees to be very good.

Government Regulations

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

In connection with the Company's support agreements, it is generally the obligation of the customer to conform to any required FDA pre-market notification or other regulations. To the Company's knowledge, all such customers who are marketing medical products are in such compliance. The Company expects to market additional applications of Hydromer’s technologies to existing products, or products introduced by it, which may be subject to such FDA review and/or foreign regulatory agencies’ procedures as proof of safety and effectiveness of the applications or products, or adherence to prescribed design standards. There can be no assurance that such approvals would be forthcoming or of compliance with such standards. Any such failure to obtain approvals or non-compliance might have a significant adverse effect on the Company. However, the Company intends to make every effort to obtain all necessary approvals and to comply with such standards, and in the case of its support agreements, to require the customers to obtain such approvals.

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

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

obligations to its employees and the public.

The Company's electronically filed reports are available at www.hydromer.com/sec and www.sec.gov.

Executive Officers

Name	Position with Company	Age as of August 31, 2012
Manfred F. Dyck	Chairman of the BoardChief Executive Officer and President	77
Martin C. Dyck	Executive Vice-President,Operations and President Biosearch Medical Products subsidiary	50
John Konar	Vice-President, Quality Assurance and Director of Human Resources	63
Robert Y. Lee	Vice-President, Finance, Chief Financial Officer and Treasurer	46

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

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

John Konar has been the Vice-President of Quality Assurance since February 2004 and Director of Human Resources since February 2000. Mr. Konar joined Biosearch in 1986 and served as the Director of Human Resources with Biosearch from 1996 until its acquisition by the Company in 2000, when he then assumed responsibilities for both companies. He also served, with Biosearch, as the Director of Sales from 1996 until 2000, Director of QA from 1998 until 2004 when he was promoted to Vice-President of Quality Assurance, and Director of Manufacturing from 2000 to 2001.

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

Item 1A. RISK FACTORS

Not applicable.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

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

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

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

Item 3. LEGAL PROCEEDINGS

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since January 9, 1986, reporting of trading of the Company's Common Stock (symbol "HYDI") has been on the National Daily Quotation Service (commonly known as the "Pink Sheets"). For the past twenty-six years, trading in the Company's stock has been limited.

The Company's Common Stock traded at prices ranging between $0.50 and $1.25 in the fiscal year 2012 and between $0.32 and $0.99 in the fiscal year 2011. These prices may not include retail mark-ups or mark-downs or any commission to the broker dealer.

The approximate number of holders of record of the Common Stock on September 18, 2012 was 215. There are approximately 450 individual shareholders of the Common Stock.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The below discussion analyzes major factors and trends regarding the results of operations and the financial condition of the Company as of June 30, 2012, and its results of operations for the prior fiscal period. It should be read in conjunction with the Financial Statements and Notes thereto.

Revenues for the year ended June 30, 2012 were $5,742,120 as compared to $5,515,015 for the same period last year, an increase of $227,105 (4.1%).

Product sales and services revenues were $4,600,948 for the 2012 fiscal year as compared to $4,548,066 the prior fiscal year, a 1.2% increase or $52,882.

License royalties and contract payments were $1,141,172 in fiscal 2012, compared to $966,949 the year before.

Management Comment: Growth in the medical polymer sales as well as contract coating services (a combined 6.5% over the prior fiscal year) was offset by a net flat growth level to the remaining product sales groups. While we expected growth from the Animal Health Division this past fiscal year, continued price sensitivity in a time mired by a depressed farming/dairy market lead to lower sales abroad which negated the growth in the U.S. With continual sales and marketing (advertising, tradeshows, etc), new product launches (**Dragonhyde DUST**, new barrier dips) distribution agreements and market penetration, we expect resumption of growth next fiscal year. New contract coating customers this past fiscal year contributed to the growth as reported above. However we expect continued conversion of existing contract coating service customers into polymer [product] sales customers. As such, we anticipate a gradual reduction to our services income with an offsetting increase in polymer sales for our [human] medical division.

Through one of our customers, one of our hydrogel technologies continues under FDA review. When clearance is granted, we expect an increase to our license royalties and contract payments revenues. New agreements this year and the effectiveness of recurring payments from agreements entered into in previous years accounted for the increase in fiscal 2012. Offsetting part of this year's increase is the deferral of Technology Transfer documentation sales over the life of its respective supply and support agreement.

Total Expenses for the year ended June 30, 2012 were $6,137,466, higher by 0.7% ($41,153) than the 2011 fiscal year results of $6,096,313.

Cost of Goods Sold was $1,675,527 for fiscal 2012 as compared to $1,590,776 for fiscal 2011. Operating Expenses were $4,245,615 and $4,626,341, for the years ended June 30, 2012 and 2011, respectively. Other Expenses added $203,085 to expenses for fiscal 2012 as compared to $206,258 for fiscal 2011. An Income Tax Provision of $13,239 is recorded for fiscal 2012 as compared with an Income Tax Benefit of $327,062 for fiscal 2011.

Management Comment: We continue our road to profitability by combining revenue growth with cost control. While the year over year expenses were higher by 0.7%, expenses were actually 4.7% lower when excluding Income Taxes. On operating expenses alone, it was lower by $380,726 (or 8.2%) against the prior year.

Cost of Goods Sold for fiscal 2012 was $84,751 (5.3%) higher than the preceding year. This increase was a result from both a higher volume of products sold as well as the product mix: of lower margin products. The improvement in Operating Expenses ($380,726) includes savings attributed to personnel reductions following the divestiture of the Biosearch OEM medical product lines in 2009-10, a reduction back to normal levels of sales and marketing expense (as compared to fiscal 2011) and lower utilities costs. The revenue increases and net expense reductions lead to a lower pre-tax loss ($382,107) for fiscal 2012 when compared to the $908,360 pre-tax loss in fiscal 2011. Despite a pre-tax loss, a net Income Tax Provision of $13,239 is recognized for the year, due to a $105,564 increase in valuation allowances against Deferred Tax Assets (a non-cash charge). If these Deferred Tax Assets are realized in future years, the reversal of the valuation allowance would result in income at that point.

Among all of this activity, we continue our “reinvestment”: Research & Development expenditures (primarily salaries and benefits) and funding to the patent and trademark estate, the costs of which are included in the Company’s Operating Expenses. Although these costs translate to minimal value in the current period, they provide for improvement in future results, for example from new product development to the protection of intellectual property rights, accordingly they are regarded as “re-investment” costs. These expenditures represented 19.1% and 18.6% of total Operating Expenses (or $809,021 and $859,044) for the years ended June 30, 2012 and 2011, respectively.

A Net Loss of $395,346 ($0.08 per share) is reported for the 2012 fiscal year compared with a Net Loss of $581,298 ($0.12 per share) for the 2011 fiscal year.

Management Comment: The Company has made tremendous progress following the cancellation and subsequent replacement of a significant Supply and Support Agreement (effective January 1, 2009) that reduced revenues and cash by $780,000 annually and the sale of OEM medical product lines which contributed pre-tax income. The Company expects to return to profitability from revenue growth (from new products and market penetration) and expense control. Impacting this year’s results was the $105,564 additional valuation reserve, a non-cash charge.

Liquidity and Capital Resources

Working Capital as of June 30, 2012 was $859,122 compared against $1,196,607 the prior year or lower by $337,485.

Compared against June 30, 2011, the June 30, 2012 cash and cash equivalent balance was lower by $221,719 and short-term investments lower by $50,000.

Management Comment: Cash Used in Operating Activities was $3,849 and the cash used for property and equipment and intangibles (the patent estate and trademarks) totaled $163,471. Repayment of the Company’s mortgage utilized $54,399 towards debt reduction.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For information concerning this item, see pages F-1 through F-8 of the “Audited Financial Statements for the year ended June 30, 2012,” which information is incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, we evaluated the effectiveness of the design and operation of the disclosure controls and procedures

(as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures were effective as of the end of the period covered by this report.

Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on our assessment, we believe that, as of June 30, 2012, the Company's internal control over financial reporting is effective based on those criteria.

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

· Segregation of Duties (control deficiency)

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

· Reporting Controls over Inventory (control deficiency)

The Company lacks a perpetual inventory system to adequately account for inventory transactions and to report inventory. Full physical inventory counts are conducted at year-end allowing for any misstatement to be inconsequential.

Management's report on Internal Control over Financial Reporting was not subject to attestation by the Company's independent registered accounting firm under Section 404(b) of the Sarbanes-Oxley Act pursuant to the rules of the Securities and Exchange Commission.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

For information concerning this item, see "Item 1. Business - Executive Officers" and pages 3 through 11 in the Proxy Statement filed with respect to the 2012 Annual Meeting of Shareholders (the "Proxy Statement"), which information is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

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

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

For information concerning this item, see page 11 of the Proxy Statement, which information is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

For information concerning this item, see pages 5 through 11 of the Proxy Statement, which information is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

For information concerning this item, see page 11 of the Proxy Statement, which information is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements:

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

(a) 2. Financial Statement Schedules:

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

(a) 3. Exhibits

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

POWER OF ATTORNEY

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HYDROMER, INC.

Date: August 15, 2012 **Hydromer Inc.**
By: /s/ Robert Y. Lee
Robert Y. Lee
Chief Accounting Officer

Date: August 15 , 2012 **Hydromer Inc.**
By: /s/ Manfred F. Dyck
Manfred F. Dyck
President, Principal Executive Officer, Chairman of Board of Directors

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

Signature	**Title**	**Date**

/s/ Manfred F. Dyck	President, Principal Executive Officer, Chairman of Board of Directors	August 15, 2012
/s/ Ursula M. Dyck	Director	August 15, 2012
/s/ Robert H Bea	Director	August 15 , 2012
/s/Maxwell Borrow	Director	August 15, 2012
/s/ Dieter Heinemann	Director	
/s/ Michael F. Ryan	Director	August 15, 2012
/s/ Fredrick L. Perl	Director	
/s/ George A. Ziets	Director	

15

INDEX TO 2012 10-K CERTIFICATIONS

Exhibit	Description
31.1	Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of Robert Y. Lee, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Manfred F. Dyck, Chief Executive Officer of Hydromer, Inc.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Robert Y. Lee, Chief Financial Officer of Hydromer, Inc.

Hydromer, Inc. & Subsidiary

Consolidated Financial Statements

June 30, 2012 and 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of Hydromer, Inc. & Subsidiary

We have audited the accompanying balance sheets of Hydromer, Inc. & Subsidiary as of June 30, 2012 and 2011 and the related statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended June 30, 2012. Hydromer, Inc. & Subsidiary's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hydromer, Inc. & Subsidiary as of June 30, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey

November 9, 2012

16

Hydromer, Inc. & Subsidiary

Consolidated Financial Statements

June 30, 2012 and 2011

Hydromer, Inc. & Subsidiary

Consolidated Balance Sheets

.	June 30, 2012	June 2011
Assets		
Current Assets:		
Cash and cash equivalents	$280,878	$ 502,597
Short-term investments	-.	50,000
Trade receivables less allowance for doubtful accounts of $17,918 and $5,622 as of June 30, 2012 and 2011, respectively	993,378	774,753
Inventory	309,369	444,604
Prepaid expenses	207,207	209,241
Deferred tax asset	-.	122,100
Other	3,485	13,547
Total Current Assets	1,794,317	2,116,842
Property and equipment, net	2,682,221	2,863,912
Deferred tax asset, non-current	1,267,311	1,196,704
Intangible Assets, net	761,519	820,231
Other assets	20,358	-
Total Assets	$6,525,726	$ 6,997,689
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$385,113	$ 387,094
Accrued expenses	342,361	313,626
Current portion of capital leases	16,499	18,687
Current portion of deferred revenue	135,323	149,108
Current portion of mortgage payable	55,899	51,720
Total Current Liabilities	935,195	920,235
Deferred tax liability	251,758	294,012
Long-term portion of capital leases	-.	15,398
Long-term portion of deferred revenue	145,593	120,940
Long-term portion of mortgage payable	2,656,239	2,714,817
Total Liabilities	3,988,785	4,065,402
Contingencies	-	-

Stockholders' Equity		
Preferred stock – no par value, authorized 1,000,000 shares, no shares issued and outstanding	-	-
Common stock – no par value, authorized 15,000,000 shares; 4,783,235 shares issued and 4,772,318 shares outstanding as of June 30, 2012 and 2011	3,721,815	3,721,815
Contributed capital	633,150	633,150
Accumulated deficit	(1,811,884)	(1,416,538)
Treasury stock, 10,917 common shares at cost	(6,140)	(6,140)
Total Stockholders' Equity	2,536,941	2,932,287
Total Liabilities and Stockholders' Equity	$6,525,726	$ 6,997,689

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Operations

	Year Ended June 30,	
	2012	**2011**
Revenues		
Sale of products	$3,202,162	$3,105,959
Service revenues	1,398,786	1,442,107
Royalties and Contract Revenues	1,141,172	966,949
Total Revenues	5,742,120	5,515,015
Expenses		
Cost of Sales	1,675,527	1,590,776
Operating Expenses	4,245,615	4,626,341
Other Expenses, net	203,085	206,258
Provision for (Benefit from) Income Taxes	13,239	(327,062)
Total Expenses	6,137,466	6,096,313
Net Loss	$(395,346)	$(581,298)
Loss Per Common Share	$(0.08)	$(0.12)
Weighted Average Number of Common Shares Outstanding	4,772,318.	4,772,318.

There was no impact to earnings per share from dilutive securities under the treasury stock method of computing dilutive earnings per share.

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Stockholders' Equity

	Common Stock		Contributed	Accumulated	Treasury Stock		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
	4,783,235	$3,721,815	$ 633,150	$ (835,240)	10,917	$(6,140)	$3,513,585
Balance June 30, 2010							
Net Loss				(581,298)			(581,298)
Balance June 30, 2011	4,783,235	$3,721,815	$ 633,150	$ (1,416,538)	10,917	$(6,140)	$2,932,287
Net Loss				(395,346)			(395,346)
Balance June 30, 2012	**4,783,235**	**$3,721,815**	**$ 633,150**	**$ (1,811,884)**	**10,917**	**$(6,140)**	**$2,536,941**

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Cash Flows

	Year Ended June 30, 2012	2011
Cash Flows From Operating Activities:		
Net Loss	$(395,346)	$(581,298)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	431,891	431,793
Deferred income taxes	9,239	(331,222)
Changes in Assets and Liabilities		
Trade receivables	(218,625)	145,499
Inventory	135,235	(196,035)
Prepaid expenses	6,476	16,794
Other assets	(10,296)	641
Accounts payable and accrued liabilities	30,809	107,415
Deferred revenues	10,868	28,407
Income taxes payable	(4,100)	-.
Net Cash Used in Operating Activities	(3,849)	(378,006)
Cash Flows From Investing Activities:		
Cash purchases of property and equipment	(56,305)	(123,356)
Cash payments on Patents and Trademarks	(157,166)	(178,352)
Cash purchases of short-term investments	-.	(50,000)
Maturity of short-term investments	50,000	440,000
Net Cash (Used in) Provided by Investing Activities	(163,471)	88,292
Cash Flows From Financing Activities:		
Repayment of long-term borrowings	(54,399)	(51,299)
Net Cash Used in Financing Activities	(54,399)	(51,299)
Net Decrease in Cash and Cash Equivalents:	(221,719)	(341,013)
Cash and Cash Equivalents at Beginning of Period	502,597	843,610
Cash and Cash Equivalents at End of Period	$280,878	$502,597

Cash paid during the year for:		
Interest	$193,762	$197,210
Income taxes	$4,100	$4,160

See notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hydromer, Inc. & Subsidiary (the "Company") is a polymer research and development company based in Branchburg, New Jersey. The Company develops polymer complexes for commercial markets in both the United States and abroad for the medical, cosmetics, animal health and industrial fields. Also in its array of capabilities, the Company offers R&D services and through its wholly owned subsidiary, Biosearch Medical Products, Inc. ("Biosearch"), engineering services and contract coating services. The Company obtains patent rights on certain products from which royalty revenues can be received.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Short-Term Investments

Short-term investments consist of investments other than cash and cash equivalents with original maturities of greater than three months and less than one year. Short-term investments as of June 30, 2011 was $50,000, comprising of a bank CD with an interest rate of 0.345%.

Accounts Receivables

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

Fair Value Measurements

Accounting Standards Codification ("ASC") 820-10, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820-10 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for an asset or liability in an orderly transaction between participants on the measurement date. Valuation techniques used to measure fair value under ASC 820-10 must maximize the use of observable inputs and minimize the use of unobservable

inputs. The standard describes a fair value hierarchy based on the levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

Inventories

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

Depreciation

The cost of property and equipment, which includes a reasonable portion of labor costs for equipment built in-house, is depreciated on a straight-line method over the estimated useful lives of the assets: 5-10 years for machinery and equipment, 3-5 years for furniture and office equipment and 40 years for the building. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Patents

Registration and maintenance costs associated with the filing and registration of patents are prepaid and amortized over its remaining life of the patent, not to exceed 20 years. Costs associated with patents which are not approved or abandoned are expensed in the period in which such patents are not approved or abandoned. The annual maintenance fees associated with existing patents are expensed over 12 months and are included in Prepaid Expenses. The Research and Development costs associated with the patented technology are expensed as incurred and are not capitalized.

Long-Lived Assets

The Company assesses long-lived assets for impairment as required under ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company reviews for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses these assets for impairment based on estimated future cash flows from these assets.

Revenue Recognition

Revenues from product and services sales are recognized at the time of shipment or when services are rendered provided that collection of the resulting receivable is probable. Revenues from royalties are recognized upon the sale of certain products by licensees with whom the Company has licensing agreements. Contract Revenues, which includes payments from Stand Still, Supply or Support agreements that are typically based on time frames, are recognized in the periods to which it pertains. Deferred revenues are recorded when agreements call for payment ahead of when the amounts are earned. In multiple element arrangements, revenue is allocated to each separate unit of accounting and each deliverable in an arrangement is evaluated to determine whether it represents separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there is no general right of return for the delivered elements. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit of accounting. Allocation of the consideration is determined at arrangement inception on the basis of each unit’s relative selling price.

Shipping and Handling Charges

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

Advertising

Advertising costs are expensed as incurred except for tangible assets, such as printed advertising materials, which are expensed as consumed. Advertising expense was $48,152 and $110,745 for the years ended June 30, 2012 and 2011, respectively.

Research and Development

Research and development costs, primarily employee salaries and benefits, are charged to operations when incurred and are included in Operating Expenses. The amounts charged to expense for the years ended June 30, 2012 and 2011 were $596,974 and $654,952, respectively.

Stock Based Compensation

The Company accounts for stock and stock options issued for services and compensation to employees under ASC 718-10. For non-employees, the fair market value of the Company's stock on the date of stock issuance or option/grant is used. The Company determines the fair market value of the options issued under the Black-Scholes Pricing Model. Under the provisions of ASC 718-10, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). There were no such stock option grants issued during the years ended June 30, 2012 and June 30, 2011.

Foreign Currency Translation

The Company's functional currency is the United States Dollar. The Company accounts for foreign currency translation pursuant to Financial Accounting Standards Board ("FASB") ASC 830-20, *Foreign Currency Transactions*. All assets and liabilities are translated into United States dollars using the rates prevailing at the end of the period. Revenues and expenses are translated using the average exchange rates prevailing throughout the period. Unrealized foreign exchange amounts resulting from translations at different rates according to their nature are included in accumulated other comprehensive income or loss. Recognized foreign currency transaction gains and losses are recognized in the operations.

Comprehensive Income (Loss)

The Company applies the provisions of FASB's ASC 220-10, *Reporting Comprehensive Income*, in which unrealized gains and losses from foreign exchange translations are reported in the consolidated statements of shareholders' deficit as comprehensive income (loss).

As of June 30, 2012, there was no comprehensive income (loss).

Income Taxes

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

Effective January 1, 2007, the Company adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The implementation of ASC 740-10 had no impact on the Company's financial statements as the Company has not recognized any uncertain income tax positions.

Earnings Per Share

Earnings per share, in accordance with the provisions of ASC 260-10, *Earnings Per Share*, is computed by dividing net income by the weighted average number of common stock shares outstanding during the period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CONCENTRATION OF CREDIT AND BUSINESS RISK

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

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

While there were no significant customers for the years ended June 30, 2011 and 2012, balances from two customers accounted for 27% of the total accounts receivables as of June 30, 2012; 99% of which was collected by mid-August 2012.

3. FAIR VALUE

In accordance with ASC 820-10, the following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 :

as of June 30, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments	$ 50,000	-	-	$ 50,000
Total Assets	$ 50,000	-	-	$ 50,000
Liabilities - n/a	-	-	-	-

Some of the Company's financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature, such as cash and cash equivalents, receivables and payables. The carrying amount of the mortgage is consistent with the terms available in the market for instruments with similar risk. There were no financial assets and liabilities requiring fair value reporting as of June 30, 2012.

4. INVENTORY

Inventory consists of:

	June 30, 2012	2011
Finished Goods	$132,673	$197,389
Work in process	6,156	32,116
Raw materials	170,540	215,099
	$309,369	$444,604

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30, 2012	**2011**
Land	$472,410	$472,410
Building	2,323,016	2,323,016
Machinery and equipment	2,287,283	2,250,263
Equipment under capital leases	86,729	86,729
Furniture and fixtures	211,518	209,818
	5,380,956	5,342,236
Less: Accumulated depreciation and amortization	(2,651,515)	(2,441,596)
Accumulated depreciation on capital leases	(47,220)	(36,728)
Property and Equipment, net	$2,682,221	$2,863,912

Depreciation expense, including that on assets under capitalized leases, charged to operations, was $220,446 and $231,347 for the years ended June 30, 2012 and 2011, respectively.

6. INTANGIBLE ASSETS

Intangible Assets, including prepaid Patent Costs included in Prepaid Expenses of $86,634 and $82,434 as of June 30, 2012 and 2011, respectively, are comprised of the following:

	June 30, 2012	**2011**

Patents	$ 1,501,522	$ 1,440,365
Trademarks	106,022	103,383
Less: Accumulated amortization	(759,391)	(641,083)
Intangible Assets, net	$ 848,153	$ 902,665

Future amortization of Intangible Assets, as of June 30, 2012, are as follows:

Year ending June 30,	
2013	$ 226,639
2014	95,417
2015	89,779
2016	88,385
2017	80,540
Thereafter	267,383
	$ 848,143

Amortization expense for the years ended June 30, 2012 and 2011 were $211,445 and $200,446, respectively.

7. LEASES

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

Future payments under these capital lease arrangements, which includes $640 in finance charges, are as follows:

Year ending June 30, 2013	$ 16,499

8. LONG-TERM DEBT

As of June 30, 2012, the Company's facility is financed by a twenty-five year mortgage note bearing a five year fixed interest rate of 6.75%, and then reset every five years at 2.75% over the then New York Federal Home Loan Bank 5/20 Amortizing Advance Rate. The mortgage is secured by the real estate and improvements, accounts receivables, inventory and all rents from leases subsequently entered into, amortized with monthly payments. As of June 30, 2012, the book value of the real estate and improvements was $2,165,985.

As a result of the net losses for the years ended June 30, 2011 and June 30, 2012, the Company did not meet certain financial covenants required under the loan document. Loan modifications and/or covenant waivers were issued by the lender during each year.

Although waivers/modifications were granted by the lender, there is no certainty that future waivers/modifications would be granted.

Long-term debt is comprised of the following:

	June 30,	
	2012	**2011**
Mortgage note	$2,712,138	$2,766,537
Less: Current Maturities	(55,899)	(51,720)
Long-term Debt, Net of Current Maturities	$2,656,239	$2,714,817

Maturities of the long-term debt are as follows:

Year ending June 30	As of June 30, 20111
2013	$55,899
2014	59,847
2015	64,074
2016	68,119
2017	73,410
Thereafter	2,390,789
	$2,712,138

9. INCOME TAXES

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

	Federal	**State**	**Total**

Year Ended June 30, 2012			
Current	$ -	$4,100	$4,100
Deferred	(72,881)	82,020	9,139
	$(72,881)	$86,120	$13,239
Year Ended June 30, 2011			
Current	$ -	$4,160	$4,160
Deferred	(314,045)	(17,177)	(331,222)
	$(314,045)	$(13,017)	$(327,062)

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

	June 30, 2012	**2011**
Deferred Tax Asset		
Net Operating Losses	$944,658	$891,783
Adjustment of Goodwill	196,069	196,069
Research & Development Credits	583,576	618,302
Valuation Allowance	(456,992)	(387,350)
Total Deferred Tax Assets	1,267,311	1,318,804
Deferred Tax Liability		
Depreciation	(251,578)	(294,012)
Total Deferred Tax Liability	$(251,578)	$(294,012)

Deferred taxes are recognized for temporary differences between the bases of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (using accelerated depreciation methods for income tax purposes). The Company's adjustment to Goodwill in 2004 and 2006 created a deferred tax asset, which although has an indefinite life, has been fully reserved for as realization of its benefit is unlikely.

As of June 30, 2012, the Company has net operating loss carry forwards of approximately $2,093,912 and $3,473,550 for Federal and State tax purposes respectively. These net operating loss carry forwards may be used to reduce federal and state taxable income and tax liabilities in future years and expire in various years through June 30, 2032 and June 30, 2019 for Federal and State tax purposes, respectively. In addition, the Company has Research and Development Tax Credits of approximately $380,095 and $203,481 for Federal and State tax purposes, respectively, which expire in various years through June 30, 2032 and June 30, 2019, respectively.

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

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

	June 30,	
	2012	**2011**
Federal statutory tax rate	(34.0)%	(34.0)%
State income tax - net of federal tax Benefit	(5.2)	(5.2)
R&D credits	(1.8)	(2.3)
Adjustment in valuation allowances	18.3	8.3
Permanent and other differences	26.2	(2.8)
	3.5%	(36.0)%

10. STOCK OPTIONS AND AWARDS

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

There were no stock option issuances during the 2011 or 2012 fiscal years as Directors waived their options earned in lieu of cash payments.

A summary of activity under the plan for the years ending June 30, 2011 and 2012 are as follows:

Shares	**Weighted Average Exercise Price**

Balance, June 30, 2010	127,000	$	1.28
Cancelled	(62,000)		0.95
Balance, June 30, 2011	65,000	$	1.60
Cancelled	(50,000)		1.18
Balance, June 30, 2012	15,000	$	3.00

Following is a summary of the status of options outstanding as of June 30, 2012:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$3.00	15,000	0.1 years	$ 3.00	15,000	$ 3.00

As the stock price of the Company's stock on June 30, 2012 was lower than the exercise prices of the outstanding and exercisable options, there was no intrinsic value of the options.

11. RETIREMENT PLAN

The Company sponsors a qualified 401(k) plan covering substantially all full time employees under which eligible employees can defer a portion of their annual compensation. The Company determines annually, the amount of matching contributions. There were no Company matching contributions made to the plan during the fiscal years ended June 30, 2011 or June 30, 2012.

12. INDUSTRY SEGMENT INFORMATION

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

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

The medical products segment includes the biofeedback medical devices, contract coating services and engineering equipment sales and services.

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

The Company operates globally in its segments with several large customers that are important to their operating results. No single customer accounted for more than 10% of the polymer research segment sales for the 2011 and 2012 fiscal years. For the medical products segment, the top three customers accounted for 41% and 48% of that segment's 2011 and 2012 sales, respectively.

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

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

	Polymer Research	Medical Products	Corporate Overhead	Total
Year Ended June 30, 2012				
Revenue	$ 4,380,701	$ 1,361,419		$ 5,742,120
Expenses	(3,461,149)	(1,132,765)	(1,530,313)	(6,124,227)
Earnings (Loss) before Income Taxes	$ 919,552	$ 228,654	$ (1,530,313)	$ (382,107)
Year Ended June 30, 2011				
Revenue	$ 4,225,184	$ 1,289,831		$ 5,515,015
Expenses	(3,627,262)	(1,171,504)	(1,624,609)	(6,423,375)
Earnings (Loss) before Income Taxes	$ 597,922	$ 118,327	$ (1,624,609)	$ (908,360)

Geographic revenues were as follows for the years ended June 30

	2012	2011
Domestic	66%	60%
Foreign	34%	40%

13. EARNINGS PER SHARE

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

	2012	**2011**
Numerator:		
Net loss	$ (395,346)	$ (581,298)
Denominator:		
Denominator for basic earnings per share - weighted average share outstanding	4,772,318	4,772,318
Effect of dilutive securities - Stock Options	0	0
Denominator for dilutive earnings per share under the treasury stock method - weighted average share outstanding	4,772,318	4,772,318
Basic Loss per share	$ (0.08)	$ (0.12)
Dilutive Earnings per share	n/a	n/a

Common stock equivalents (consisting of 15,000 and 65,000 stock options for the years ended June 30, 2012 and 2011, respectively) were not included in computing diluted earnings per share as their effect would have been anti-dilutive.

14. CONTINGENCIES

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

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

15. SUBSEQUENT EVENTS

On November 8, 2012, the Company was granted a waiver on the loan covenants not met as of June 30, 2012 for a fee of $50,000. The amount paid will be amortized over the remaining life of the loan. The next covenant measurement date will be June 30, 2013.

INDEX TO EXHIBITS

3.a	Certificate of Incorporation of the Company, as amended to date
3.b	By-Laws of the Company, as amended to date
10.n	1982 Stock Option Plan of the Company (Incorporated by reference to Exhibit 10.m to the 1983 Annual Report).
24.	Power of Attorney (see "Power of Attorney" in the Annual Report on Form 10-K).
31.1	Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of Robert Y. Lee, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Manfred F. Dyck, Chief Executive Officer of Hydromer, Inc.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Robert Y. Lee, Chief Financial Officer of Hydromer, Inc.