

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

HYDRON TECHNOLOGIES INC  
Form 10KSB  
December 28, 2007

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

FORM 10-KSB  
FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the year ended September 30, 2007 or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from January 1, 2007 to September 30, 2007.

Commission file Number 0-6333

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 No.)

4400 34TH STREET NORTH, SUITE F, ST. PETERSBURG, FL 33714  
-----

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (727) 342-5050  
-----

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

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

COMMON STOCK, PAR VALUE \$.01 PER SHARE  
-----

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any other amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company accelerated filer (as defined in Exchange Act Rule 12b-2). YES  NO

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

The issuers revenues for the fiscal year ended September 30, 2007 was \$885,911

The aggregate market value of the voting stock held by non-affiliates of the Registrant was \$1,541,338 based upon the closing price of \$0.15 on September 30, 2007.

Number of shares of Common Stock outstanding as of December 31, 2007:18,958,676.

No documents are incorporated by reference into this Report except those Exhibits so incorporated as set forth in the Exhibit index.

Transitional Small Business Disclosure Format (Check one): Yes [ ]; No [X].

### INDEX

#### PART I

Item 1. Business.....	3
Item 2. Properties.....	10
Item 3. Legal Proceedings.....	10
Item 4. Submission of Matters to a vote of security holders.....	10

#### PART II

Item 5. Market for common equity and related stockholder matters.....	11
Item 6. Management's discussion and analysis or plan or operation.....	14
Item 7. Consolidated Financial Statements.....	21
Item 8. Changes & Disagreements with Accountants.....	48
Item 8a. Controls & Procedures.....	48
Item 8b. Other Information.....	49

#### PART III

Item 9. Directors, Executive officers, Promoters and Control persons Compliance with Section 16(a) of the Exchange Act.....	49
Item 10. Executive Compensation.....	51
Item 11. Security Ownership of certain beneficial owners and Management.....	53
Item 12. Certain relationships and related transactions.....	54
Item 13. Exhibits .....	54
Item 14. Principal Accounting Fees and Services .....	58

# Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

## PART I

### ITEM 1. BUSINESS

#### INTRODUCTION

Hydron Technologies, Inc. ("the Company"), a New York corporation organized on January 30, 1948, maintains its principal office at 4400 34th Street North, Suite F, St. Petersburg, FL 33714 and its telephone number is (727) 342-5050.

During early 2005, the Company returned its focus to the development and sales of its skin care products. For several years prior, the Company's research and development efforts were concentrated on products and medical applications utilizing its patented tissue oxygenation technology, and on accumulating data for a Food & Drug Administration (FDA) application related to this technology. 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 at that time. 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, and expects to re-institute research and development in that area when working capital allows.

The Company's current focus is on furthering development and sales of its other proprietary products, including a newly patented evaporating emulsifier technology for use in cosmetic treatments and acne products, a number of patented polymer skin care formulas using a moisture-attracting ingredient (the "Hydron(R) polymer") that provide superior skin moisturization benefits and sunscreen delivery, and a patented formula for a wrinkle reduction serum.

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

On July 1, 2005, the Company purchased Clinical Results, Inc. ("CRI"), for two million (2,000,000) shares of the Company's common stock. Through the purchase of CRI the Company has entered the business of proprietary formulations and contract manufacturing for other consumer product companies.

3

#### LIQUIDITY

The Company anticipates that present working capital balances and internally generated funds will not be sufficient to meet our working capital needs for the next three months. It will be necessary to sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion on the Company's September 30, 2007 financial statements, since the Company has incurred significant losses over the past five

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

years and generates a negative cash flow on a monthly basis.

On October 3, 2007, the Company, closed on a private offering of 1,400,000 units ("Units"), comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock. The Company received gross proceeds of One Hundred Seventy Five Thousand Dollars (\$175,000) from the sale of Units in the Offering. Among the individuals who purchased Units in the Offering is Ronald J. Saul, a director of the Company who together with his spouse purchased 300,000 Units

On October 30, 2007, the Company, closed on a private offering of 400,000 units ("Units"), comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock of the Company for each Unit purchased or a total of 400,000 Shares and 400,000 Warrants to purchase Shares. The Company received gross cash proceeds of Fifty Thousand Dollars (\$50,000) from the sale of Units in the Offering. Ronald J. Saul, a director of the Company, purchased the 400,000 Units together with his spouse.

The Company used the proceeds of the Offering to pay current obligations of the Company.

On July 1, 2005, the Company acquired CRI, a St. Petersburg, Florida-based company. CRI was a privately held product development laboratory and contract manufacturer of cosmeceuticals and other personal care products. CRI's clients range from mass-market retailers to marketers of high-end brands, and of certain health food store brands.

Management believes that Hydron Technologies will benefit from lower manufacturing costs, and be better positioned to build its catalog and internet business, as well as expand the sale of its skin care treatments beyond its historical direct response TV and catalog operations, by utilizing CRI's broker network. The Company's ultimate ability to attain profitable operations is dependent upon obtaining additional financing or achieving a level of sales adequate to support its cost structure.

The Company's working capital deficit was approximately (\$532,000) at September 30, 2007, including cash and cash equivalents of approximately (\$15,000). Cash used by operating activities was \$607,576 and cash used in investing activities was \$2,150 during the year ended September 30, 2007. This was offset by proceeds from financing activities of \$602,786.

The Company has the following material debt; loan payable of \$150,000 borrowed from three shareholders in May 2005, the loan payable of \$100,000 borrowed from one shareholder on May 22, 2007 and the loan payable of \$25,000 borrowed from one shareholder on August 14, 2007 and two capital leases for equipment purchases of \$31,286. The Company has substantial overdue trade accounts payables balances. There are no capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

4

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

- o Emphasize and expand the marketing and manufacturing of private label products.
- o Implement new direct sales and networking initiatives.

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

- o Emphasize Catalog sales, including sales made over the Internet, since these sales have higher profit margins.
- o Evaluate the possibilities of increasing direct marketing and direct response television exposure to build brand awareness and revenues.
- o Team with third parties to build the advertising and promotion of the Hydron(R) brand, as the Company does not have the financial resources to sustain a national advertising campaign to support distribution of its production into retail stores.
- o Develop and market new product lines based on the Company's proprietary technologies.
- o Continue to reduce overhead and operating costs.
- o Obtain an infusion of capital that will sustain the Company's operation until the newly established licensing arrangements can produce positive cash flow.

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

### HYDRON(R) BRANDED SKIN CARE PRODUCTS

The Company has been developing various consumer products using Hydron polymers since 1986. The Company's products are designed to address concerns about the visible signs of aging, and include Hydron(R) skincare, hair care, bath and body and sun care lines. The Company currently has forty three individual branded products available in the following product categories: skin care (34 products), hair care (6 products), bath and body (12 products), dental (3 products) and sun care (2 products). These products are also packaged into collections and sold at a more favorable value than the individual products sold separately. All of the products are available through the Hydron catalog and web site at [www.hydron.com](http://www.hydron.com) ("Catalog"). The Company also markets a number of customized formulations under private label and contract manufacturing for various outside brands.

Management believes that the Company's moisturizers and skin treatments are unique and offer the following competitive benefits: they self-adjust to match the skin's optimal pH balance soon after they are applied to the skin; they become water-insoluble on the skin's surface, and unlike all other water-based cremes and lotions, are not removed by the skin's perspiration or plain water; they are oxygen-permeable, allowing the skin to breathe; they do not emulsify the skin's natural moisturizing agents, as do conventional cremes and lotions; and they attract and hold water, creating a cushion of moisture on the skin's surface that promotes penetration of other beneficial product ingredients, all while leaving no greasy after-feel.

5

The Company's products are independently tested by dermatologists and, in their opinion, are considered to be safe, non-irritating and applicable to most skin types. Products for use around the eye area are also ophthalmologist tested and safe for contact lens wearers. Most of the Company's branded moisturizing products are based on the Company's patented emulsion system, which permits the product ingredients to deliver their intended benefits over an extended period of time and in a more efficient manner.

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

Management believes that the Hydron(R) emulsion system can enhance the effectiveness of topical over-the-counter medications. The emulsion system is designed to deposit a polymer film on the skin's surface which has a number of advantages over traditional lotions: it promotes hydration of the outer layer of skin, improves penetration into the skin's pores, and has good tactility and flexibility. The Company expects to continue to focus research and development resources on proprietary technology-based products as determined by management's assessment of consumer demand.

**CATALOG AND WEB SALES** - The Company offers personal care products for sale directly to consumers. Augmenting direct mail, the Company sells its products on the World Wide Web and regularly transmits E-mail broadcasts to its customer base. Catalog and web sales represented approximately 39% of Hydron's total sales for the year ended September 30, 2007. The Company is continuing to explore new ways to enhance Catalog and Web sales and operations, including direct sales initiatives.

**PRIVATE LABEL CONTRACTING** - Since March 1, 2001, the Company has been a supplier to Reliv International, Inc ("Reliv") to develop and manufacture a line of private label skin care products under their brand name, ReversAge(R). Reliv is a public company traded on NASDAQ (symbol RELV). Private label sales represented approximately 13% of Hydron's total sales for the year ended September 30, 2007.

**CONTRACT MANUFACTURING** - Through its acquisition of CRI, the Company now manufactures consumer products for a number of companies. Products include proprietary formulations for skin and hair care. During the year ending September 30, 2007, contract manufacturing revenue represented 42% of Hydron's total sales.

**FORMULATION AND COMMISSION** - The Company received a \$60,000 payment for formulation services that its subsidiary Clinical Results, Inc had previously performed in the nine months ended September 30, 2006. Formulation sales represented 6% of sales and Commissions represented 2% of sales for the nine months ended September 30, 2006. The company received \$0 commission on formulation sales during the year ended September 30, 2007.

### RESEARCH AND DEVELOPMENT

For several years prior to 2005, the Company's research and development efforts advanced groundbreaking research into oxygenated wound treatments, healing enhancement, and skin care that may provide anti-aging treatments. Where possible, the Company may license these technologies to other companies with expertise in specific applications. Research and development efforts include product formulation, clinical testing, packaging design and prototypes, extensive product safety and stability testing conducted by medical professionals, efficacy studies to support product claims, and consumer research.

The Company currently continues to concentrate research and development on proprietary technology-based products as determined by management's assessment of consumer demand. Management has completed development of an acne ingredient delivery system. The technology allows for acidic ingredients to be delivered to the skin's stratum corneum at neutral pH (~6.8 to 7.0), where it then gradually adjusts to match the pH of the stratum corneum below 5.5. This delivery technique avoids the irritation and burning associated with traditional acne treatments that deliver ingredients at pH values as low as 2.0. The Company was granted U.S. patents on this technology in January 2006.

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

In the current acne market, medicinal treatments can often be more irritating and elicit more redness than the skin condition itself. The Company's new system significantly reduces the harshness and irritation associated with such products.

Prior to June 2005, Charles Fox, a consultant and a former member of the Company's Board of Directors from September 1997 to October 1998, led the Company's research and development efforts. Mr. Fox was formerly director of product development for Warner Lambert Company's personal products division and was a former president of the Society of Cosmetic Chemists.

Beginning on July 1, 2005 David Pollock the Company's CEO heads the Company's R&D effort.

### PATENTED TECHNOLOGY

The Company believes that technology and patent protection are essential to providing a sound foundation for a new product. In January 2006, the Company was granted U.S. Patent Number 6,984,391 for its Compositions and Method for Delivery of Skin Cosmeceuticals. This patent covers a unique evaporating emulsifier system that the Company believes is a significant breakthrough in skin care. It is evident in recent skin research that the pH range of the emulsion system is essential in contributing to the skin's natural healing process and the enzyme production responsible for rebuilding the skin's lipid barrier. The benefits provided by this pH self-adjusting system provides clinically proven benefits over competitive products

The Company was granted a U.S. patent on its super-oxygenation technology 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.

The Company was granted U.S. Patent No. 4,883,659, dated November 28, 1989, and U.S. Patent No. 5,039,516, dated August 13, 1991, which cover a stable moisturizing emulsion containing an unusual emulsifying agent, as well as the Hydron polymer and a unique combination of ingredients. These patents have expiration dates of November 28, 2006 and August 13, 2008, respectively. During 1999 the Company was granted U.S. Patent No. 5,879,684 for its "Line Smoothing Complex" formula. This product has been clinically shown to reduce fine lines and wrinkles. The patent has an expiration date of April 11, 2017. In addition, the Company has registered several trademarks relating to its cosmetic products.

7

The Company has also received patent protection for its emulsification process in several countries to facilitate distribution and sale of these products outside of the United States. The Hydron polymer, utilized in cosmetic emulsions, creates a thin moisture-attracting film that is non-greasy; is not dissolved by sebaceous oils or perspiration; does not emulsify the skin's natural oils and humectants; and allows the skin to breathe. The film is insoluble in water and resistant to rub-off, but can easily be removed with cleanser and water.

### MANUFACTURING AND RAW MATERIALS

Until July 1, 2005, Hydron polymer-based products were manufactured exclusively for the Company by independent third parties. The Company had used principally two manufacturers of cosmetic products because of the quality of their production and reasonable costs. All raw material and packaging components for the Company's consumer and professional product lines are readily available to the Company from a variety of sources.

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

Since July 1, 2005 the Company is manufacturing the majority of its products at its own facility.

The Company is not dependent upon any sole manufacturer or supplier for any of its raw materials or ingredients.

### AGREEMENT WITH VALERA PHARMACEUTICALS ("VALERA")

Under the terms of an agreement with Valera, which was assigned from GP Strategies Corporation ("GPS"), the Company has an exclusive worldwide license to manufacture, market or use non-prescription products that include the Hydron polymer in the consumer field, including in connection with cosmetic products and certain personal care products, and in the oral health field, including dentures. Under the Valera Agreement, Valera retains the exclusive right to manufacture, sell or distribute any prescription drug or medical device made with the Hydron polymer, other than in the oral health field. In addition, under the Valera Agreement, the Company and Valera may each manufacture, sell, and use non-prescription drug products that include the Hydron polymer as an active ingredient, that are not included in their respective exclusive fields.

Under the Valera Agreement, Valera also licenses to the Company the trademark Hydron for use in connection with the manufacture, marketing and use of products using Hydron polymers as permitted under the Valera Agreement.

Under the terms of the GPS Agreement, the Company and GPS are each required to pay to the other a royalty of five percent (5%) of their respective net sales of Hydron polymer products, except for sales of certain specified non-prescription drug products, utilizing the Hydron polymer as an active ingredient to third parties. Where the seller receives an up-front license fee, royalty or similar payment the seller shall pay the other party a royalty of twenty-five percent (25%) of such payments. GPS has assigned its rights under the GPS Agreement to Valera Pharmaceuticals (formerly known as Hydro-Med Sciences, Inc.) (Valera). Which has been purchased by Indevus Pharmaceuticals, Inc (IDEV) on April 17, 2007.

An aggregate of \$12,275 and \$28,108 was accrued and unpaid as of September 30, 2007 and December 31, 2006, respectively. For the nine month periods ended September 30, 2007 and 2006, the Company recorded royalty expenses of approximately \$0 and \$14,000, respectively. For the year ended December 31,

8

2006, the Company recorded approximately \$19,000. While the Company has not received any royalty payments, or been advised of any sales that would entitle it to royalty payments to date, according to the Indevus website, certain Hydron implant milestones are noteworthy:

- o Indevus currently markets two (2) once-yearly Hydron Implants. One addressing prostate cancer and the other, addressing central precocious puberty, both of which were specifically excluded from cross-royalties. To date, to the extent of the Company's belief, these implants are providing appropriate dosing for the life of the implant.
- o On November 28, 2007, Indevus reported positive results from a Phase II Octreotide Implant trial, along with their expectation that a Phase III trial will begin in the first half of 2008. If ultimately successful in bringing the Octreotide implant to market, this implant is likely to be the first product subject to the cross-royalty arrangement.

### LIMITED LIABILITY PARTNERSHIP



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

In August 2004, The Company established Hydron Royalty Partners, LLLP, a limited liability limited partnership, to fund the then existing royalty obligations in consideration for the right to receive future royalty receipts from Valera Pharmaceuticals, Inc. Hydron Technologies, Inc., the general partner, assigned its rights in the Valera Agreement to the Partnership. The Partnership assumed the existing liability for prior period royalties (\$127,984) and will annually pay the first \$30,000 of any future royalties due to Valera through 2008 in return for the right to receive any future royalties that may be due from Valera on their new products. The Company, as general partner, holds 50.001% of the partnership interests, and the limited partnership interests represent in the aggregate the remaining 49.999%.

### INVENTORY

The Company did not have any backorder of firm booked orders of Hydron branded product as of September 30, 2007 and generally delivers its orders within two weeks of the date orders are booked. Although the Company's business is not seasonal, orders placed by Hydron's private label customers and television retailers fluctuate on a monthly and quarterly basis. Orders placed by the Company's Catalog customers are generally shipped within two business days of the placement of the order.

Most items can be produced within a 45-day period. Since the Company manufactures products in-house and has reduced the lead time for production, the finished goods inventory can be reduced to an average between 3 - 6 months of sales. Packaging components must be printed in larger quantities and the level of those types of items may exceed 12 months of sales. The inventory level of the Hydron polymer exceeds several years.

### GOVERNMENT REGULATION

The Company's oxygenation process uses pure oxygen, which is a natural substance and is not controlled. However, the containers, devices used, and the handling of oxygen require the Food and Drug Administration's approval (FDA). The Company complies with the Federal Food, Drug and Cosmetic Act ("FDC Act") and must comply with the labeling requirements of the FDC Act, the Fair Packaging and Labeling Act ("FPL Act"), and the regulations thereunder. Many

9

products and applications that are derived from Hydron's oxygenation technology will be considered medical in nature and FDA approval will be required for this area. New skin care products and most of the Company's existing products are "cosmetics" as that term is defined under the FDC Act. Some of the Company's products (i.e. its topical analgesic and products that contain a sunscreen or Triclosan) are also classified as over-the-counter drugs.

Additional regulatory requirements for existing products include certain labeling requirements, registration of the manufacturer and semi-annual update of the drug list. Management believes that it is in compliance with these requirements and that it faces no material costs associated with such compliance.

### COMPETITION

The skin care business is characterized by vigorous competition throughout the world. Product recognition, quality, performance and price have significant influence on customers' choices among competing products and brands. Advertising, promotion, merchandising, the pace and timing of new product introductions and line extensions also have a significant impact on consumer

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

buying decisions. The Company competes against a number of marketers of skin care products, many of which have substantially greater resources than the Company.

### SEASONALITY

The Company's results of operations are not subject to seasonal fluctuations.

### EMPLOYEES

The Company satisfies its human resource needs utilizing an outsourcing firm that provides all administrative services relating to payroll, personnel and employee benefits. Management continues to hire, fire, set pay rates and supervises its staff. This arrangement enables the Company to reduce its administrative and benefits costs relating to employees. The Company, as of September 30, 2007, had seventeen full time positions

### ITEM 2. PROPERTIES

The Company currently leases office space at 4400 34th Street North, Suites E, F and H, under three non-cancelable leases in St. Petersburg, Florida, which expire between April and September 2008. The lease on this office space (35,000 square feet) requires a monthly rent of approximately \$18,100, including taxes and common area expenses.

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A Meeting of the Shareholders of the Company was held on November 15, 2004, in Boca Raton, Florida (the "Meeting"). At the Meeting, the shareholders of the Company voted on proposals to (i) elect a Board of four directors to serve until the Company's next meeting of shareholders and until their successors are elected and qualified and approved the Company's 2003 Stock Plan.

10

The results of the voting appointed the following Directors:

Richard Banakus  
Joshua Rochlin  
Karen Gray  
Ronald J. Saul

The Shareholders also approved the adoption of the Company's 2003 Stock Plan and ratified the Audit Committee's selection of Daszkal Bolton LLP as the Company's independent Certified Public Accountants for the year ended December 31, 2004. There was no shareholder meeting held in 2006 or 2007.

Mr. Joshua Rochlin resigned from the Board of Directors of Hydron Technologies, Inc. effective March 31, 2005 due to his increased commitments at Marc Ecko Enterprises. Mr. David Pollock was appointed to replace him on July 1, 2005.

No meeting of shareholders of the Company was held in 2006. Directors elected by the shareholders at the last annual meeting, as well as David Pollock, the director elected by the Board of Directors, have continued in

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

office. Moreover, in light of the absence of a meeting of shareholders, the Board of Directors has appointed Sherb & Co, LLP. as the Company's independent accounting firm.

### PART II

#### ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

##### MARKET INFORMATION

The Company's Common Stock is quoted on the OTC Bulletin Board, a regulated quotation service for over-the-counter securities not listed or traded on NASDAQ or a national securities exchange, under the symbol HTEC.OB. The following tables indicate the high and low closing prices for the Company's Common Stock as reported by the OTC Bulletin Board.

	HIGH CLOSING PRICE -----	LOW CLOSING PRICE -----
2007 -----		
Third Quarter	\$0.22	\$0.12
Second Quarter	0.29	0.17
First Quarter	0.20	0.10
2006 -----		
Fourth Quarter	\$0.30	\$0.10
Third Quarter	0.54	0.15
Second Quarter	0.65	0.42
First Quarter	0.65	0.35

As of September 30, 2007, there were approximately 1,020 shareholders of record of the Company's Common Stock. The number of shareholders of record will decline as the Company's transfer agent has notified the Company of its intent to transfer shares, held in the name of shareholders that it has not been able to locate, to the proper authorities in compliance with state law requirements relating to unclaimed property.

11

##### DIVIDENDS AND DIVIDEND POLICY

The Company does not contemplate paying dividends in the near-term. The Board of Directors will determine the payment of dividends in the future in light of conditions then existing, including the Company's earnings and financial condition.

##### RECENT SALES OF UNREGISTERED SECURITIES

On February 1, 2007, the Company, commenced an offering of up to 3,300,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock having a total gross purchase price of \$330,000. On February 1, 2007 the Company closed on the sale of 2,100,000 Units resulting in gross proceeds to the Company of \$210,000. On February 5, 2007, the Company closed on the sale of an additional 1,100,000 Units resulting in gross proceeds to the Company of \$110,000. On February 8, 2007 the Company closed on the sale of an additional 100,000 Units resulting in gross proceeds to the Company of \$10,000.

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

Among the individuals who purchased Units in the Offering were Richard Banakus, the Chairman, acting President, and a director of the Company, who purchased 350,000 Units, and Ronald J. Saul, a director of the Company who with his spouse purchased 850,000 Units.

On March 21, 2007 the Company closed on the sale of an additional 500,000 Units resulting in gross proceeds to the Company of \$50,000 to Ronald J. Saul, a director of the Company, and his spouse jointly.

On July 18, 2007, the Company, sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007.

### EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes share information about the Company's equity compensation plans, including the company's Stock Option Plan ("the Plan") and non-plan equity compensation agreements as of September 30, 2007:

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS
Equity compensation plans approved by security holders	1,251,500	\$0.33	(1)
Equity Compensation plans not approved by security holders	37,000	\$0.43	(1)
Total	----- 1,288,500 =====	\$0.36	

(1) The 2003 Stock Plan was approved at the November 15, 2004 shareholders' meeting. The aggregate number of shares that may be issued under the Plan cannot exceed 15% of the total outstanding shares. As of September 30, 2007, the number of Securities for future issuance under the 2003 Stock Plan was 1,418,700 and 159,100 for all previous plans.

### EQUITY COMPENSATION PLANS APPROVED BY SHAREHOLDERS

The 1993 Non-Employee Director Stock Option Plan ("1993 Plan") was adopted by the Board of Directors on December 22, 1993, approved by the shareholders on July 19, 1994 and approved, as amended, by the shareholders on December 17, 1997. The purpose of the 1993 Plan is to assist the Company in attracting and retaining key directors who are responsible for continuing the growth and success of the Company. No options were granted under the 1993 Plan during the year ended September 30, 2007.

During 1997, the Company adopted the 1997 Non-Employee Director Stock Option Plan. Such plan provides grants of stock options to non-employee

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

directors of the Company to purchase an aggregate of 100,000 shares of the Company's common stock. Each non-employee director shall be granted an option to purchase 2,000 shares of the Company's common stock on each May 1st throughout the term of this plan at exercise prices equal to the average of the fair market value of the Company's common stock during the ten business days preceding the date of the grant. In addition, each non-employee director who sits on a committee of the Board of Directors shall be granted an option to purchase 500 shares of the Company's common stock under the same pricing arrangements as above. Subject to certain exceptions, no options granted under this plan shall be exercisable until one year after the date of grant. During August 1999, the Company agreed to increase the annual May 1st grant to the Board members from 2,000 to 20,000 shares of the Company's common stock and committee members from 500 to 5,000. These options expire five years from the date of grant and all outstanding options are exercisable at September 30, 2007.

No options were granted under this provision of the 1997 Plan during the year ended September 30, 2007

On November 19, 2003, the Board approved, subject to shareholder approval, the 2003 Stock Plan (the "2003 Plan"). The shareholders approved this plan on November 15, 2004. The 2003 Plan permits the grant of nonqualified and incentive stock options, as well as restricted stock purchases. The form of the equity is left up to the discretion of the committee of the Board (or the Board, if no committee) at the time of each grant. This 2003 Plan is designed to consolidate and replace two Stock Option Plans, which have expired; the 1993 Stock Option Plan and the 1997 Non-Employee Director Stock Option Plan. The purpose of the 2003 Plan is to assist the Company in attracting, retaining, and motivating key employees, officers, directors, and consultants by offering selected individuals an opportunity to acquire a proprietary interest in the success of the Company.

The Board of Directors had approved the issuance of 943,500 options in prior periods subject to the adoption of a new stock plan at the November 15, 2004 shareholders' meeting. All of these options have been reflected as being granted in 2004.

Options to purchase 345,000 shares were granted to employees during the year ended September 30, 2007, necessitating adjustments to the pro forma information regarding net income and earnings per share as required by FASB Statement No. 123.

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

13

### EQUITY COMPENSATION PLANS NOT APPROVED BY SHAREHOLDERS

The Company has agreements with several consultants who provide financial, business, and technical advice to the Company in connection with the research, development, marketing and promotion of its products and other matters. As part of their compensation, these consultants were granted warrants and nonqualified stock options to purchase shares of the Company's common stock at prices representing the fair market value of the shares at the date of grant.

### ITEM 6. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### FORWARD LOOKING INFORMATION

The following discussion and analysis of the Company's financial condition and results of operations should be read with the condensed consolidated financial statements and related notes contained in this annual report on Form 10-KSB ("Form 10-KSB"). All statements other than statements of historical fact included in this Form 10-KSB 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 negative of these terms 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-KSB 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-KSB. 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.

### OVERVIEW

In 2002 the Company virtually eliminated sales made through television retailers, having terminated the exclusive relationship with HSN in late 2001, and as revenues derived from resales by QVC to prior customers declined. Management expects that in 2005 and beyond, an increasing portion of the Company's skin care sales will be generated from direct marketing utilizing direct response mail, the Company's catalog and web site, and licensing arrangements. Management also expects that the Company will generate an increasing portion of its revenues from sales made through private label partners and will look for other opportunities to sell the Company's products through similar arrangements. Management anticipates introducing new cosmetic products based on its oxygenation technology, which it believes will open doors for new distribution. However, the types and timing of the introduction of new cosmetic products will depend upon the results of further clinical testing.

14

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

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

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 Technologies, Inc. (Hydron), as general partner, formed Hydron Royalty Partners, LLLP (Partners) a Limited Liability Limited 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 Pharmaceuticals, Inc. (Valera). Partners has completed a non-brokered private placement of Limited Partnership Interest to ten accredited investors including Hydron's Chairman, Richard Banakus and a Hydron Director, Ronald J. Saul. Each limited partner invested \$30,000 or an aggregate of \$300,000 for a 49.999% interest in Partners. The establishment of Partners 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 believes that the vertical capabilities added by this acquisition will 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.

### RESULTS OF OPERATIONS - 2007 VERSUS 2006

Total net sales for the nine months ended September 30, 2007 were \$885,911, a decrease of \$294,564 or 25% from net sales of \$1,180,475 for the nine months ended September 30, 2006. Total net sales for the year ended December 31, 2006 were \$1,474,003. Catalog Sales net sales for the nine months ended September 30, 2007 were \$349,308, a decrease of \$70,304 or 17% from sales of the nine months ended September 30, 2006 of \$419,612. Catalog Sales net sales for the year ended December 31, 2006 were \$610,677. Private Label and Contract Manufacturing net sales for the nine months ended September 30, 2007 were \$488,962, a decrease of \$146,620 or 23% from sales the nine months ended

15

September 30, 2006 of \$635,582. Private Label and Contract Manufacturing net sales for the year ended December 31, 2006 were \$724,182. Formulation and commission net sales for the nine months ended September 30, 2007 were \$0, a decrease of \$86,521 or 100% from sales for the nine months ended September 30, 2006. Formulation and commission net sales for the year ended December 31, 2006 were \$86,434. Shipping and handling revenues for the nine months ended September 30, 2007 were \$47,641, an increase of \$8,882 or 23% from shipping and handling revenues for the nine months ended September 30, 2006 of \$38,759. Shipping and handling revenues for the year ended December 31, 2006 were \$52,710.

The decrease in catalog sales was the result of the attrition of the Company's customer base without marketing spending to replace those customers. Private Label Manufacturing sales decreased due to the timing of shipments to contact manufacturing customers.

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

For the nine months ended September 30, 2007 cost of sales was \$326,394, a decrease of \$12,350 or 4% from cost of sales of \$338,744 for the nine months ended September 30, 2006. Shipping and handling costs for the nine months were \$56,519, an increase of \$2,243 or 4% from shipping and handling costs of \$54,276 for the same period in 2006. Shipping and handling costs for year ended December 31, 2006 were \$53,922. Cost of sales was \$669,049 for the year ended December 31, 2006.

The Company's overall gross profit margin decreased to 63% of net sales for the nine months ended September 30, 2007 versus 71% for the nine months ended September 30, 2006. This reflects the decrease in formulation and commission sales. The Company's overall gross profit margin was 55% of net sales for the year ended December 31, 2006.

For the nine month periods ended September 30, 2007 and 2006, the Company recorded royalty expenses of approximately \$0 and \$14,000, respectively. For the year ended December 31, 2006, the Company recorded approximately \$19,000. An aggregate of \$12,275 was accrued and unpaid as of September 30, 2007. This amount is adequate to cover any royalties that are payable through September 2007.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, obtain regulatory approval, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, and conduct consumer panel studies and focus groups. R&D expenses were \$3,721 for the nine months ended September 30, 2007, a decrease of \$7,762 or 67% from R&D expenses of \$11,483 for the nine months ended September 30, 2006. For the year ended December 31, 2006, expenses charged to Research and Development were \$11,916. The amount of annual R&D expenses will vary year to year depending on the Company's research requirements.

Selling, general and administrative ("SG&A") expenses for the nine months ended September 30, 2007 were \$963,464, representing a decrease of \$65,381 or 6% from SG&A expenses of \$1,028,845 for the nine months ended September 30, 2006. Employment expense was \$410,807 for the nine months ended September 30, 2007, a decrease of \$69,021, or 14%, from \$479,828 for the nine months ended September 30, 2006. Employment expense decreased primarily due to the resignation of the Executive Vice President in May 2007. Advertising and promotional expenses was \$3,848 for the nine months ended September 30, 2007, a decrease of \$70,891, or 95% from \$74,739 for the nine months ended September 30, 2006. This decrease is due to the Company cutting back on the new advertising initiatives taken by the Company in 2006 to increase sales. Rent expense was

16

\$92,760 for the nine months ended September 30, 2007, an increase of \$26,886, or 41% from \$65,876 for the nine months ended September 30, 2006. The increase in rent is due primarily to increased pass through costs for property insurance from the landlord and yearly increase in rent. Professional expenses (legal and audit) was \$110,284 for the nine months ended September 30, 2007, an increase of \$6,201 or 6% from \$104,083 for the nine months ended September 30, 2006. The increase in professional fees involved increased legal expenses. Settlement expense was \$38,404 for the nine months ended September 30, 2007, an increase of \$38,404, or 100% from \$0 for the nine months ended September 30, 2006. The increase in settlement expense was due to the Company resolving a dispute with a customer. Insurance expense was \$18,795 for the nine months ended September 30, 2007, a decrease of \$22,769, or 55% from \$41,564 for the nine months ended September 30, 2006. Insurance decreased primarily due to the cancellation of certain policies in 2007. Telephone expense was \$18,734 for the nine months ended September 30, 2007, a decrease of \$14,044, or 43% from \$32,778 for the



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

nine months ended September 30, 2006. Telephone decreased primarily due to the Company discontinuing the use of a outside call center that was used in 2006. All other expenses were \$269,832 for the nine months ended September 30, 2007, an increase of \$39,855 or 17% from \$229,977 for the nine months ended September 30, 2006. Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2006 were \$1,176,594.

Depreciation and amortization expense for the nine months ended September 30, 2007 was \$72,017, a decrease of \$4,212 or 5.5% from \$76,229 for the nine months ended September 30, 2006. For the year ended December 31, 2006, expenses charged to depreciation and amortization were \$103,392.

Net interest (expense) was (\$55,303) for the nine months ended September 30, 2007 compared to net interest (expense) of (\$60,305) for the nine months ended September 30, 2006. The decrease in interest expense was due primarily to the interest on the loan payable and amortization of related debt discount. For the year ended December 31, 2006, net interest (expense) was (\$74,098).

Minority interest in net loss for the nine months ended September 30, 2007 was \$13,906 compared to \$21,103 for the nine months ended September 30, 2006. This minority interest is created from a consolidated limited liability partnership, Hydron Royalty Partners, LLLP, established by the Company in August 2004 (see Limited Liability Partnership, Item 1. Business). For the year ended December 31, 2006, minority interest in net loss was \$28,149.

The Company had a net loss of \$521,082 for the nine months ended September 30, 2007, representing an increase of \$193,011 or 59% from the net loss of \$328,071 for the nine months ended September 30, 2006, primarily as a result of the factors discussed above. For the year ended December 31, 2006, the Company had a net loss of \$552,108.

### LIQUIDITY AND CAPITAL RESOURCES

The Company anticipates that present working capital balances and internally generated funds will not be sufficient to meet our working capital needs for the next three months. It will be necessary to sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion on the Company's September 30, 2007 financial statements, since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

17

The Company's working capital deficit was approximately (\$532,000) at September 30, 2007, including cash and cash equivalents of approximately (\$15,000). Cash used by operating activities was \$607,576 and cash used in investing activities was \$2,150 during the year ended September 30, 2007. This was offset by proceeds from financing activities of \$602,786.

On February 1, 2007, the Company, commenced an offering of up to 3,300,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common stock having a total gross purchase price of \$330,000. On February 1, 2007 the Company closed on the sale of 2,100,000 Units resulting in gross proceeds to the Company of \$210,000. On February 5, 2007, the Company closed on the sale of an additional 1,100,000 Units resulting in gross proceeds to the Company of \$110,000. On February 8, 2007 the Company closed on the sale of an additional 100,000 Units resulting in gross proceeds to the Company of \$10,000. Among the individuals who purchased Units in the Offering were Richard Banakus, the Chairman, acting President, and a director of the Company, who purchased

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

350,000 Units, and Ronald J. Saul, a director of the Company who with his spouse purchased 850,000 Units.

On March 21, 2007 the Company closed on the sale of an additional 500,000 Units resulting in gross proceeds to the Company of \$50,000 to Ronald J. Saul, a director of the Company, and his spouse jointly.

On July 18, 2007 the Company, sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007.

On October 3, 2007, the Company, closed on a private offering of 1,400,000 units ("Units"), comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock. The Company received gross proceeds of One Hundred Seventy Five Thousand Dollars (\$175,000) from the sale of Units in the Offering. Among the individuals who purchased Units in the Offering is Ronald J. Saul, a director of the Company who together with his spouse purchased 300,000 Units.

On October 30, 2007, the Company, closed on a private offering of 400,000 units ("Units"), comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock of the Company for each Unit purchased or a total of 400,000 Shares and 400,000 Warrants to purchase Shares. The Company received gross cash proceeds of Fifty Thousand Dollars (\$50,000) from the sale of Units in the Offering. . Ronald J. Saul, a director of the Company, purchased the 400,000 Units together with his spouse.

The Company used the proceeds of the Offering to pay current obligations of the Company.

The Company has the following material debt: loan payable of \$150,000 borrowed from three shareholders in May 2005, the loan payable of \$100,000 borrowed from one shareholder on May 22, 2007 and the loan payable of \$25,000 borrowed from one shareholder on August 14, 2007 and two capital leases for equipment purchases of \$31,286. The Company has substantial overdue trade accounts payables balances. There are no capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

18

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

- o Emphasize and expand the marketing and manufacturing of private label products.
- o Implement new direct sales and networking initiatives.
- o Emphasize Catalog sales, including sales made over the Internet, since these sales have higher profit margins.
- o Evaluate the possibilities of increasing direct marketing and direct response television exposure to build brand awareness and revenues.
- o Team with third parties to build the advertising and promotion of the

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

Hydron(R) brand, as the Company does not have the financial resources to sustain a national advertising campaign to support distribution of its production into retail stores.

- o Develop and market new product lines based on the Company's proprietary technologies.
- o Continue to reduce overhead and operating costs.
- o Obtain an infusion of capital that will sustain the Company's operation until the newly established licensing arrangements can produce positive cash flow.

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

### NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 on its financial position, cash flows, and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 will be effective for the Company for the fiscal year ended December 31, 2006. The Company is currently evaluating the impact of applying SAB 108 but does not believe that the application of SAB 108 will have a material effect on its financial position, cash flows, and results of operations.

19

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115" (Statement 159). Statement 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of Statement 159 on our financial statements. The Company is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

### 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.

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

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.

### REVENUE RECOGNITION AND ALLOWANCE FOR SALES RETURNS

The Company records product sales when persuasive evidence of an arrangement exists, shipment has occurred, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Catalog sales are sold on a cash basis with a 30-day guarantee. Returns have been less than \$10,000 annually for the last five years. A provision is made at the time sales are recognized for the estimated cost of product warranties. Private label sales are sold on account and are collected in 30 to 45 days. If there is a production or packaging problem, the Company would correct the problem and replace the product sold. To minimize that possibility, the Company inspects all production batches before they are packaged to ensure quality, efficacy, and consistency.

### INVENTORY VALUATION

Shifting sales from one item in our product line to another or minimum production requirements may create a situation where inventory levels of specific items may exceed the annual sales of that item. This can create inventory levels in excess of net realizable value. Management regularly reviews inventory quantities on hand and, where necessary, records provisions for excess and obsolete inventory based on either estimated forecast of product demand or historical usage of the product. If sales do not materialize as planned or decline below historic levels, management increases the reserve for excess (quantities in excess of one year's sales) and obsolete inventory. This would reduce earnings and cash flows.

Packaging changes are planned far in advance in order to limit the impact of out-dated or obsolete components. Private label customers are required to prepay the cost of packaging materials in order to take advantage of volume discounts and protect the Company from any sudden packaging changes.

20

### ITEM 7. CONSOLIDATED FINANCIAL STATEMENTS

	Page -----
Reports of Independent Registered Public Accounting Firm .....	22
Consolidated Financial Statements:	
Balance Sheet as of September 30, 2007 .....	23
Statements of Operations for the Nine month period ended September 30, 2007 and 2006, and the year ended December 31, 2006 .....	24

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

Statements of Changes in Shareholders' Equity / (Deficit) for the Year ended December 31, 2006, and Nine month period ended September 30, 2007 ..... 25

Statements of Cash Flow for the Nine month period ended September 30, 2007 and 2006, and the year ended December 31, 2006 ..... 26

Notes to Consolidated Financial Statements ..... 27 - 47

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee  
Hydron Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Hydron Technologies, Inc. as of September 30, 2007 and the related consolidated statements of operations, changes in shareholders' equity (deficit) and cash flows for the nine months ended September 30, 2007 and the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hydron Technologies, Inc. as of September 30, 2007, and the results of their operations and their cash flows for the nine months ended September 30, 2007 and the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has a working capital deficiency at September 30, 2007 and has experienced losses from operations in 2007 and 2006. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 16. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Sherb & Co., LLP  
-----  
Certified Public Accountants

Boca Raton, Florida  
December 19, 2007

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

HYDRON TECHNOLOGIES, INC.  
CONSOLIDATED BALANCE SHEET

SEPTEMBER 30,  
2007

ASSETS		-----
Current assets		
Trade accounts receivable, net .....	\$ 31,303	
Inventories .....	342,672	
Prepaid expenses and other current assets .....	3,054	
	-----	
Total current assets .....	377,029	
Property and equipment, net .....	108,707	
Deferred product costs, net .....	111,538	
Intangible assets, net .....	159,989	
Restricted cash .....	68,853	
Deposits .....	29,652	
	-----	
Total assets .....	\$ 855,768	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Overdraft liability .....	\$ 15,287	
Accounts payable .....	231,057	
Loans payable, net .....	243,293	
Royalties payable .....	12,275	
Deferred revenues .....	79,961	
Accrued liabilities .....	297,494	
Current portion of obligation under capital leases .....	29,233	
	-----	
Total current liabilities .....	908,600	
Long term liabilities		
Obligation under capital lease payable .....	2,053	
Minority interest in consolidated partnership .....	207,807	
Commitments and contingencies		
Shareholders' deficit		
Preferred stock - \$.01 par value 5,000,000 shares authorized; no shares issued or outstanding .....	-	
Common stock - \$.01 par value 30,000,000 shares authorized; 17,134,668 shares issued and outstanding ...	171,346	
Additional paid-in capital .....	21,846,680	
Accumulated deficit .....	(22,272,902)	
Treasury stock, at cost 10,000 shares .....	(7,816)	
	-----	
Total Shareholders' deficit .....	(262,692)	
	-----	
Total liabilities and shareholders' deficit .....	\$ 855,768	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

HYDRON TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006 (Unaudited)
	-----	-----
Net sales .....	\$ 885,911	\$ 1,180,475
Cost of sales .....	326,394	338,744
	-----	-----
Gross profit .....	559,517	841,731
Expenses		
Royalty expense .....	-	14,043
Research and development .....	3,721	11,483
Selling, general & administration .....	963,464	1,028,845
Depreciation & amortization .....	72,017	76,229
	-----	-----
Total expenses .....	1,039,202	1,130,600
	-----	-----
Operating loss .....	(479,685)	(288,869)
Interest (expense), net of interest income of \$0 and \$620 and \$60	(55,303)	(60,305)
	-----	-----
Loss before income taxes and minority interest .....	(534,988)	(349,174)
Income taxes expense .....	-	-
Minority interest in net loss of subsidiary .....	13,906	21,103
	-----	-----
Net loss .....	\$ (521,082)	\$ (328,071)
	=====	=====
Basic and diluted loss per share		
Net loss per common share .....	\$ (0.03)	\$ (0.03)
	=====	=====
Weighted average shares		
outstanding (basic and diluted) .....	15,971,283	12,157,642
	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

24

HYDRON TECHNOLOGIES, INC.  
Consolidated Statements of Changes in Shareholders' Equity (Deficit)

	Common Stock		Additional	Accumulated	Treas
	-----	-----	Paid-in	Deficit	Sto
	Shares	Amount	Capital	-----	(at c
	-----	-----	-----	-----	-----
Balance at December 31, 2005 .....	11,926,836	\$119,268	\$21,126,925	\$(21,199,712)	\$ (7,
	-----	-----	-----	-----	-----
Exercise of stock options .....	199,500	1,995	42,540	-	

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

Issuance of common shares in lieu of interest on loan payable	113,400	1,134	49,896	-	
Compensation expense from stock option awards .....	-	-	56,908	-	
Net loss .....	-	-	-	(552,108)	
	-----	-----	-----	-----	-----
Balance at December 31, 2006 .....	12,239,736	122,397	21,276,269	(21,751,820)	(7,.....)
	=====	=====	=====	=====	=====
Exercise of stock options .....	625,000	6,250	60,538	-	
Issuance of common shares for payment of interest on loan payable .....	161,108	1,611	29,965	-	
Warrants issued in connection with loan payable .....	-	-	64,443	-	
Issuance of common shares for settlement of account payable ..	58,824	588	9,412	-	
Compensation expense from stock option awards .....	-	-	31,553	-	
Issuance of common shares for cash .....	4,050,000	40,500	374,500	-	
Net loss .....	-	-	-	(521,082)	
	-----	-----	-----	-----	-----
Balance at September 30, 2007 .....	17,134,668	\$171,346	\$21,846,680	\$(22,272,902)	\$ (7,.....)
	=====	=====	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25

HYDRON TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED		YEAR ENDED
	SEPTEMBER 30,	SEPTEMBER 30,	DECEMBER 31,
	2007	2006	2006
		(Unaudited)	
	-----	-----	-----
OPERATING ACTIVITIES			
Net loss .....	\$ (521,082)	\$ (328,071)	(552,108)
Adjustments to reconcile net loss to net cash used in operating activities			
Minority interest .....	(13,906)	(21,103)	(28,149)
Depreciation and amortization .....	72,017	76,229	103,392
Compensation expense from stock option awards ...	31,553	18,880	56,908
Warrants issued from loans payable .....	64,443	-	-
Stock issued in settlement .....	10,000	-	-
Deferred financing costs .....	(34,562)	10,701	14,268
Stock issued for interest expense .....	31,576	51,030	51,030
Bad debt expense .....	10,008	-	-
Change in operating assets and liabilities			
Restricted cash .....	21,302	18,478	22,179
Trade accounts receivable .....	6,365	88,977	83,954
Inventories .....	(73,419)	9,151	136,911
Prepaid expenses and other current assets .....	1,245	24,169	26,894
Deposits .....	(400)	(15,450)	(21,673)
Accounts payable .....	(158,170)	43,648	55,828
Royalties payable .....	(15,833)	(2,430)	(1,404)
Deferred revenues .....	(50,071)	(20,385)	(4,501)
Accrued interest .....	(10,003)	(4,536)	1,890



Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

Accrued liabilities .....	21,361	13,899	21,406
	-----	-----	-----
Net cash used in operating activities .....	(607,576)	(36,813)	(33,175)
INVESTING ACTIVITIES			
Purchase of fixed assets .....	(2,150)	(18,052)	(18,052)
	-----	-----	-----
Net cash used in investing activities .....	(2,150)	(18,052)	(18,052)
FINANCING ACTIVITIES			
Cash overdraft .....	15,287	-	-
Stock offering, proceeds .....	415,000	-	-
Loan payable, proceeds .....	125,000	-	-
Payments on capital leases .....	(19,289)	(16,673)	(22,649)
Proceeds from exercise of stock options .....	66,788	44,535	44,535
	-----	-----	-----
Net cash provided by financing activities .....	602,786	27,862	21,886
Net (decrease) in cash and cash equivalents .....	(6,940)	(27,003)	(29,341)
Cash and cash equivalents at beginning of period .....	6,940	36,281	36,281
	-----	-----	-----
Cash and cash equivalents at end of period .....	\$ -	\$ 9,278	\$ 6,940
	=====	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION			
Stock issued to pay accrued interest .....	\$ 31,576	\$ 51,030	\$ 51,030
	=====	=====	=====
Warrants issued in connection with private offering .	\$ 415,000	\$ -	\$ -
	=====	=====	=====
Equipment received for payment of accounts receivable	\$ 15,500	\$ -	\$ -
	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

26

Hydron Technologies, Inc  
Notes to Consolidated Financial Statements  
September 30, 2007 and December 31, 2006

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization of Business

Hydron(R) Technologies, Inc. (the "Company") manufactures and sells consumer and professional products, primarily in the personal care/cosmetics field. The Company holds the exclusive license from Valera Pharmaceuticals (VLRX) recently purchased by Indevus Pharmaceuticals Inc. (IDEV), the assignee of GP Strategies Corporation (formerly National Patent Development Corporation) ("GPS") to a Hydron(R) polymer-based drug delivery system for topically applied, nonprescription pharmaceutical products, which the Company uses to develop proprietary products or to license to third parties. The Company owns U.S. and international patents on a method to suspend the Hydron polymer in a stable emulsion for use in personal care/cosmetic products.

The Company also owns a patent entitled "Compositions and Methods for Delivery of Skin Cosmeceuticals." This patent covers the Company's unique self-adjusting pH emulsion system.

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

The Company also owns U.S. and international patents on a method to infuse oxygen into the skin and tissue topically without using the blood stream. The oxygenation technology was submitted to the Food & Drug Administration to obtain the necessary approvals for medical applications; however, at this time, the necessary steps for final approval have not been determined and this project is currently on hold.

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

Management believes that Hydron Technologies will benefit from lower manufacturing costs, and be better positioned to build its catalog and internet business, as well as expand the sale of its skin care treatments beyond its historical direct response TV and catalog operations, by utilizing CRI's broker network. The Company's ultimate ability to attain profitable operations is dependent upon obtaining additional financing or achieving a level of sales adequate to support its cost structure.

### Principles of Consolidation

The consolidated financial statements include the accounts of Hydron Technologies, Inc. and its wholly-owned subsidiary CRI purchased as of July 1, 2005, and its majority owned limited liability limited partnership, Hydron Royalty Partners, LLLP. All significant inter-company transactions have been eliminated.

### Use of Estimates

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

27

### 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.

The cash and cash equivalent balances at September 30, 2007 and 2006 are covered by the Federal Deposit Insurance Commission.

### Restricted cash

At September 30, 2007, the Company had restricted cash of \$68,853, all of which were covered by the Federal Deposit Insurance Commission, which represents funds from a consolidated entity, that are not available for use in the Company's normal operations.

### Concentration of Credit Risk

Trade accounts receivable are due primarily from contract manufacturing customers and are usually paid to the Company within 30 days after receipt of goods. The Company performs ongoing evaluations of its significant customers and

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

does not require collateral, although in many cases it requires deposits or advances.

### Inventories

Inventories are valued at the lower of cost or market, on a first-in, first-out (FIFO) basis and include finished goods, components and raw materials.

### Impairment of Long-Lived Assets

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. The Company did not record any impairment charges during the nine months ended September 30, 2007.

### Property and Equipment

Property and equipment, consisting primarily of furniture and equipment, is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from four to six years.

### 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.

28

### 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.

### 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

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

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. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. 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 period ended September 30, 2007 and 2006, the Company recorded stock-based compensation expense of \$31,553 and \$18,880 respectively. For the year ended December 31, 2006, the Company recognized \$56,908 of stock-based compensation expense under the intrinsic value method.

### 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.

29

### Revenue Recognition

The Company recognizes revenue when

- o Persuasive evidence of an arrangement exists,
- o Shipment has occurred,
- o Price is fixed or determinable, and
- o Collectability is reasonably assured.

Subject to these criterion, the Company recognizes revenue at the time of shipment of the relevant merchandise. The Company offers its individual consumer customers a thirty-day warranty and estimates an allowance for sales returns based on historical experience with product returns. For the Company's formulation and contract manufacturing business, revenue is recognized when the work is complete, the client approves the formula by written correspondence, and the product is shipped.

### Deferred Revenues

Deferred revenues represent prepayments to the Company for merchandise that had not yet been shipped to the customer. The Company will recognize the advances as revenue as customers take delivery of the goods, in compliance with its revenue recognition policy.

### Shipping and Handling Fees

The Company follows the provisions of Emerging Issues Task Force Issue

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

No. 00-10, "Accounting for Shipping and Handling Fees and Costs." Any amounts billed to third-party customers for shipping and handling is included as a component of revenue. Shipping and handling costs incurred are included as a component of cost of sales.

### Cost of Sales

Prior to the acquisition of CRI, products were manufactured through third parties under contract and cost of sales included the cost of ingredients, packaging material, assembly and processing costs. Currently, with manufacturing capability, most products are manufactured in house. Inbound freight, internal transfers, and component handling costs are charged to cost of sales. Costs associated with shipping product to customers are included in cost of sales. The cost of warehousing finished product that is available for sale is included in selling, general and administrative expenses.

### Research and Development Costs

Research and development expenditures, consist of costs incurred in performing research and development activities, and are expensed as incurred. For the nine month periods ended September 30, 2007 and 2006, expenses charged to Research and Development were \$3,721 and \$11,483, respectively. For the year ended December 31, 2006, expenses charged to Research and Development were \$11,916.

### Advertising

Advertising costs are expensed as incurred and are included in "Selling, general and administrative expenses." Advertising expenses amounted to approximately \$3,800 and \$75,000 for the nine month periods ended September 30, 2007 and 2006, respectively. For the year ended December 31, 2006, expenses charged to Advertising were approximately \$83,000.

30

### Recent accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 on its financial position, cash flows, and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 will be effective for the Company for the fiscal year ended December 31, 2006. The Company is currently evaluating the impact of applying SAB 108 but does not believe that the application of SAB 108 will have a material effect on its financial position, cash flows, and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115" (Statement 159). Statement 159 allows entities to choose, at specified

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

election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of Statement 159 on our financial statements. The Company is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

### NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### NOTE 3 - INVENTORIES

At September 30, 2007, inventories consist of the following:

	2007
Finished goods .....	\$ 103,385
Raw materials and components .....	569,680
	673,065
Less Inventory valuation allowance	(330,393)
	\$ 342,672
Inventories, net .....	\$ 342,672

31

### NOTE 4 - TRADE ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at September 30, 2007:

	2007
Accounts Receivable .....	\$ 61,303
Less : Allowance for Doubtful accounts	(30,000)
	\$ 31,303
Accounts Receivable, Net .....	\$ 31,303

The Company's allowance for doubtful accounts was \$30,000 at September 30, 2007.

### NOTE 5 - PROPERTY AND EQUIPMENT

At September 30, 2007, property and equipment consisted of the following:

	2007
Furniture and equipment .....	\$ 393,067
Less accumulated depreciation	(284,360)
	\$ 108,707

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

=====

Depreciation for the nine month periods ended September 30, 2007 and 2006 was \$30,008 and \$24,000, respectively. Depreciation for the year ended December 31, 2006 was \$33,340.

### NOTE 6 - DEFERRED PRODUCT COSTS

The Company was granted U.S. Patent No. 4,883,659, dated November 28, 1989, and U.S. Patent No. 5,039,516, dated August 13, 1991, which cover a stable moisturizing emulsion containing an unusual emulsifying agent, as well as the Hydron polymer and a unique combination of ingredients. These patents have expiration dates of November 28, 2006 and August 13, 2008, respectively. During 1999 the Company was granted U.S. Patent No. 5,879,684 for its "Line Smoothing Complex" formula. This product has been clinically shown to reduce fine lines and wrinkles. The patent has an expiration date of April 11, 2017.

The Company was granted U.S. Patent No. 6,984,391 dated January 10, 2006, which is titled "Compositions and Methods for Delivery of Skin Cosmeceuticals." This patent covers the Company's unique self-adjusting pH emulsion system.

At September 30, 2007 deferred product costs consisted of the following:

	2007
	-----
Deferred product cost .....	\$ 351,818
Less accumulated amortization	(240,280)
	-----
	\$ 111,538
	=====

32

Amortization for the nine month periods ended September 30, 2007 and 2006 was approximately \$15,000 and \$26,000, respectively. Amortization for the year ended December 31, 2006 was approximately \$28,000.

Estimated future amortization of deferred product costs are as follows:

2008 .....	\$ 16,666
2009 .....	12,738
2010 .....	9,432
2011 .....	9,064
2012 .....	8,696
thereafter ....	54,942
	-----
	\$ 111,538
	=====

### NOTE 7 - ACQUISITION

On July 1, 2005, the Company acquired all the outstanding common stock of Clinical Results, Inc. (CRI). As consideration, the Company issued 2,000,000 shares of common stock (fair value of \$260,000). The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the consolidated statements of operations since the date of acquisition. Intangible assets which are comprised of customer lists, formularies, product developments and employment contract for key employee of \$241,311 were recorded in this transaction and are being amortized over 3 to 10

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

years using the straight line method.

	2007
	-----
Intangibles .....	\$ 241,311
less accumulated amortization	(81,322)
	-----
	\$ 159,989
	=====

Post-acquisition amortization of the identifiable intangible assets for Amortization for the nine month periods ended September 30, 2007 and 2006 was approximately \$26,800 and \$26,800, respectively. Amortization for the year ended December 31, 2006 was approximately \$28,000.

Estimated future amortization of the identifiable intangible assets is as follows:

2008 .....	\$ 31,632
2009 .....	19,113
2010 .....	19,113
2011 .....	19,113
2012 .....	19,113
Thereafter ....	51,905
	-----
	\$ 159,989
	=====

33

### NOTE 8 - ROYALTY AGREEMENTS

From 1976 through 1989, the Company and GP Strategies Corporation ("GPS") entered into various agreements, wherein the Company obtained the exclusive worldwide rights to market products using Hydron polymers in cosmetic and oral health fields, the two fields in which the Company has concentrated its research and development efforts, and to utilize the Hydron polymer as a drug release mechanism in topically applied, nonprescription pharmaceutical products. The Hydron polymer is one of the underlying technologies in many of the Company's skin care products. GPS has the exclusive worldwide license to market prescription drugs and medical devices using Hydron polymers. Further, each has the right to exploit products with Hydron polymers not in the other's exclusive fields.

Under the terms of the GPS Agreement, the Company and GPS are each required to pay to the other a royalty of five percent (5%) of their respective net sales of Hydron polymer products, except for sales of certain specified non-prescription drug products, utilizing the Hydron polymer as an active ingredient to third parties. Where the seller receives an up-front license fee, royalty or similar payment the seller shall pay the other party a royalty of twenty-five percent (25%) of such payments. GPS has assigned its rights under the GPS Agreement to Valera Pharmaceuticals (formerly known as Hydro-Med Sciences, Inc.) (Valera). Which has been purchased by Indevus Pharmaceuticals, Inc (IDEV) on April 17, 2007.

The Company and Valera were discussing possible ways to simplify the GPS Agreement in 2004 but were unable to reach agreement. As a result, the Company assigned its rights under the GPS Agreement to Hydron Royalty Partners, LLLP, and a newly created limited liability partnership with the Company as the "General Partner." The partnership assumed the existing liability for prior



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

period royalties (\$127,984) and will annually pay the first \$30,000 of any royalties due to Valera and, in return, will receive future royalties from Valera.

An aggregate of \$12,275 was accrued and unpaid as of September 30, 2007. For the nine month periods ended September 30, 2007 and 2006, the Company recorded royalty expenses of approximately \$0 and \$14,000, respectively. For the year ended December 31, 2006, the Company recorded approximately \$19,000. While the Company has not received any royalty payments, or been advised of any sales that would entitle it to royalty payments to date, according to the Indevus website, certain Hydron implant milestones are noteworthy:

- o Indevus currently markets two (2) once-yearly Hydron Implants. One addressing prostate cancer and the other, addressing central precocious puberty, both of which were specifically excluded from cross-royalties. To date, to the extent of the Company's belief, these implants are providing appropriate dosing for the life of the implant.
- o On November 28, 2007, Indevus reported positive results from a Phase II Octreotide Implant trial, along with their expectation that a Phase III trial will begin in the first half of 2008. If ultimately successful in bringing the Octreotide implant to market, this implant is likely to be the first product subject to the cross-royalty arrangement.

34

### NOTE 9 - ACCRUED LIABILITIES

At September 30, 2007, accrued liabilities consisted of the following:

	2007
	-----
Dividends payable ..	\$ 83,163
Director fee payable	123,520
Professional fees ..	40,754
Other .....	50,057
	-----
	\$297,494
	=====

### NOTE 10 - INCOME TAXES

The Company accounts for income taxes under FASB Statement No. 109, "Accounting for Income Taxes" (FASB 109). Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Due to losses, the Company has not provided for current income tax expense in either the nine months ended September 30, 2007 or the year ended December 31, 2006.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
	-----	-----
Net operating loss carryforwards	\$ 7,544,000	\$ 7,389,000

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

Tax credit carry forwards .....	168,000	168,000
Other .....	278,000	259,000
	-----	-----
Deferred tax assets .....	7,990,000	7,816,000
Less valuation allowance .....	(7,990,000)	(7,816,000)
	-----	-----
Total net deferred taxes .....	\$ -	\$ -
	=====	=====

FASB 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that an \$7,990,000 valuation allowance at September 30, 2007 is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The valuation allowance increased by \$174,000 in 2007 and decreased \$438,000 in 2006. The increase in 2007 was due to the net operating loss carryforward.

35

As of September 30, 2007, the Company had an unused net operating loss carry forward of approximately \$20,049,000 available for use on its future corporate income tax returns. These net operating loss carry forwards expire in September 2027. Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of any of the Company's net operation loss and credit carry forwards may be limited if cumulative changes in ownership of more than 50% occur during any three year period.

The reconciliation of income tax rates, computed at the U.S. federal statutory tax rates, to income tax expense is as follows:

	2007	2006
	----	----
Tax at U.S. statutory rates .....	34%	34%
State income taxes, net of federal tax benefit	3%	3%
Permanent differences .....	-4%	-6%
Increase in valuation allowance .....	-33%	-31%
	----	----
	0%	0%
	=====	=====

NOTE 11 - LOAN PAYABLE

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

In connection with the Loans, the Company issued to each of the Lenders a promissory note in the principal amount of Fifty Thousand Dollars (\$50,000) (individually, a "Note" and collectively, the "Notes") providing for (a) quarterly payments of interest at ten percent (10%) per annum and (b) repayment of principal in a balloon payment on the second anniversary of the date of the Notes. Under the terms of the Notes, the Company may elect to pay quarterly interest to the holders of the Notes in shares of common stock, \$.01 par value, of the Company (the "Common Stock"), in an amount calculated by dividing the amount of interest due and payable by ten cents (\$.10). The Notes also provide

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

that, in the event of a default by the Company under the Notes, the holders may elect to receive payment of principal and accrued and unpaid interest in shares of Common Stock, in an amount calculated by dividing the amount of principal and accrued and unpaid interest payable by the "Average Market Price" for a share of Common Stock. Under the terms of the Notes, "Average Market Price" means the average closing sale price for a share of Common Stock measured over the last ten trading days of the month preceding the interest payment date or, if no trading in the Common Stock has occurred during such period, the average closing sale price on the last date on which a share of Common Stock was sold in over-the-counter trading in the Common Stock. In the event that no shares of Common Stock have traded in the over-the-counter market for a period of six months or more, the Average Market Price shall be the fair market price for a share of Common Stock as determined in good faith by the Board of Directors of the Company. In October 2005, the Company elected to pay the accrued interest due on the Notes of \$11,040 in stock of the Company and issued 44,000 shares at

36

\$.25 to the Note holders. In January 2006, the Company elected to pay the accrued interest due on the Notes of \$13,230 in stock of the Company and issued 37,800 shares at \$.35 to the Note holders. In March 2006, the Company elected to pay the accrued interest due on the notes of \$21,546 in stock of the Company and issued 37,800 shares at \$.57 to the Note holders. In July 2006, the Company elected to pay the accrued interest due on the notes of \$16,254 in stock of the Company and issued 37,800 shares at \$.43 to the Note holders. In January 2007, the Company elected to pay the accrued interest due on the notes of \$15,120 in stock of the Company and issued 37,800 shares at \$.17 to the Note holders, and 37,800 shares at \$.23 to the Note holders. In May 2007, the Company elected to pay the accrued interest due on the notes and issued 37,800 shares at \$.17 to the Note holders. In June 2007, the Company elected to pay the accrued interest due on the notes and issued 31,260 shares at \$.22 to the Note holders. At September 30, 2007 the Company had \$3,750 in accrued interest to the note holders.

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

The Notes and the Warrants each provide that in the event that the Company shall grant "piggy back" registration rights to any other party to cause the Company's Common Stock or any security exercisable or exchangeable for, or convertible into, shares of Common Stock to be included in a registration statement filed by the Company for sale by any selling shareholder or by the Company, the Company will grant the holders of the Notes and Warrants similar registration rights.

On May 20, 2007, the Company agreed to extend and amend certain of the terms of the loans (collectively, the "Loan Extension") made to the Company on June 14, 2005 (collectively, the "Original Loans") by Mr. Saul, Richard Banakus, the Chairman and a director of the Company, and Regis Synan (individually, a "Lender" and collectively, the "Lenders") in the amounts of \$50,000, \$50,000 and \$50,000, respectively. Under the terms of the Loan Extension, the Lenders agreed to extend the maturity date of the Original Loans from June 14, 2007 to June 14, 2008. In consideration for the Loan Extension, the Company agreed to grant each Lender a common stock warrant (the "Loan Extension Warrants") exercisable for Seventy Five Thousand (75,000) shares of the Common Stock for a five-year period at an exercise price of \$0.20 per share of Common Stock. The warrants were valued using the Black Scholes model at \$43,400, which is being amortized as

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

interest expense over the life of the notes.

In addition, the Lenders agreed to continue to allow the Company to pay quarterly interest in cash or in shares of Common Stock. In the case of interest paid in shares of Common Stock, the Company agreed to modify the valuation for such shares to \$0.20 per share of Common Stock. The Board of Directors of the Company approved the Loan Extension and the Loan Extension Warrants unanimously with Messrs. Saul and Banakus abstaining from the vote, and agreed to reserve sufficient shares of Common Stock in the event of the exercise of the Loan Extension Warrant. In June 2007, the Company elected to pay the accrued interest due on the notes and issued 2,970 shares at \$.22 to the Note holders.

37

On May 22, 2007, Ronald J. Saul, a director of Hydron Technologies, Inc., lent the Company One Hundred Thousand Dollars (\$100,000) (the "Loan"). The term of the Loan is six months and bears interest at the rate of ten percent (10%). Interest on the Loan is payable monthly and may be paid in cash, or at the option of the Company, in shares of common stock of the Company ("Common Stock"), valued for this purpose at the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common Stock traded. In addition, in consideration of the Loan, the Company has granted Mr. Saul a common stock warrant (the "Loan Warrant") exercisable for One Hundred Thousand (100,000) shares of Common Stock for a five-year period at an exercise price of \$0.2115 per share of Common Stock. The warrants were valued using the Black Scholes model at \$21,040, which is being amortized as interest expense over the life of the notes. In June 2007, the Company elected to pay the accrued interest due on the note of \$833 in stock of the Company and issued 3,771 shares at \$.221 to the Note holder. In August 2007, the Company elected to pay the accrued interest due on the note of \$1,666 in stock of the Company and issued 4,433 shares at \$.188 and 5,274 shares at \$.158 to the Note holder. At September 30, 2007, the Company had accrued \$1,055 of interest on the note due to the Note holder.

The Board of Directors of the Company approved the Loan and the Loan Warrant unanimously with Mr. Saul abstaining from the vote, and agreed to reserve sufficient shares of Common Stock in the event of the exercise of the Loan Warrant. The purpose of the Loan was to provide the Company with additional cash to remain current on its operating expenses, help reestablish credit terms with the Company's vendors, reduce outstanding payables and purchase additional raw materials on more advantageous terms.

On August 14, 2007, Ronald J. Saul, a director of Hydron Technologies, Inc., lent the Company Twenty five Thousand Dollars (\$25,000) (the "Loan"). The term of the Loan is two weeks and expires on August 28, 2007 and bears interest at the rate of ten percent (10%) per annum to be paid in cash at the expiration of the loan agreement. The loan expiration was extended until it was converted in the private offering dated October 3, 2007. Mr. Saul and his spouse paid for 200,000 Units in the private offering by the cancellation of the loan. At September 30, 2007, the Company had accrued \$312 of interest on the note due to the Note holder.

Loans Payable consisted of the following at September 30, 2007:

	2007
	-----
Loans Payable .....	\$ 275,000
Accrued interest .....	5,117
Less: Deferred financing costs	(36,824)
	-----

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

\$ 243,293  
=====

38

NOTE 12 - STOCK OPTIONS AND WARRANTS

The number of shares of common stock reserved for issuance was 8,386,000 for September 30, 2007 and 4,938,500 for December 31, 2006.

STOCK OPTION PLANS

THE 1993 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

The 1993 Non-Employee Director Stock Option Plan ("1993 Plan") was adopted by the Board of Directors on December 22, 1993, approved by the shareholders on July 19, 1994 and approved, as amended, by the shareholders on December 17, 1997. The purpose of the 1993 Plan is to assist the Company in attracting and retaining key directors who are responsible for continuing the growth and success of the Company. No options were granted under the 1993 Plan during the year ended September 30, 2007.

1997 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

During 1997, the Company adopted the 1997 Non-Employee Director Stock Option Plan. Such plan provides grants of stock options to non-employee directors of the Company to purchase an aggregate of 100,000 shares of the Company's common stock. Each non-employee director shall be granted an option to purchase 2,000 shares of the Company's common stock on each May 1st throughout the term of this plan at exercise prices equal to the average of the fair market value of the Company's common stock during the ten business days preceding the date of the grant. In addition, each non-employee director who sits on a committee of the Board of Directors shall be granted an option to purchase 500 shares of the Company's common stock under the same pricing arrangements as above. Subject to certain exceptions, no options granted under this plan shall be exercisable until one year after the date of grant. During August 1999, the Company agreed to increase the annual May 1st grant to the Board members from 2,000 to 20,000 shares of the Company's common stock and committee members from 500 to 5,000. These options expire five years from the date of grant and all outstanding options are exercisable at September 30, 2007.

2003 STOCK PLAN

On November 19, 2003, the Board approved, subject to shareholder approval, the 2003 Stock Plan (the "2003 Plan"). The shareholders approved this plan on November 15, 2004. The 2003 Plan permits the grant of nonqualified and incentive stock options, as well as restricted stock purchases. The form of the equity is left up to the discretion of the committee of the Board (or the Board, if no committee) at the time of each grant. This 2003 Plan is designed to consolidate and replace two Stock Option Plans, which have expired; the 1993 Stock Option Plan and the 1997 Non-Employee Director Stock Option Plan. The purpose of the 2003 Plan is to assist the Company in attracting, retaining, and motivating key employees, officers, directors, and consultants by offering selected individuals an opportunity to acquire a proprietary interest in the success of the Company.

The Board of Directors had approved the issuance of 943,500 options in prior periods subject to the adoption of a new stock plan at the November 15, 2004 shareholders' meeting. All of these options have been reflected as being granted in 2004.

Options to purchase 345,000 shares were granted to employees during the year ended September 30, 2007, necessitating adjustments to the pro forma information regarding net income and earnings per share as required by FASB Statement No. 123.

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

Activity with respect to these plans is as follows:

	Number of Options/ Warrants -----	Price Per Share -----	Weighted Average Exercise Price -----
Outstanding at December 31, 2005 ...	1,242,000	\$0.13 TO \$0.81	\$0.37
Stock options granted .....	74,500	.5225 TO .53	0.53
Stock options expired .....	(120,000)	0.281 TO .5225	0.32
	-----		
Outstanding at December 31, 2006 ...	1,196,500	\$0.13 TO \$0.81	\$0.38
	=====		
Stock options granted .....	345,000	.118 TO .2115	0.20
Stock options expired .....	(290,000)	0.2715 TO .3155	0.29
	-----		
Outstanding at September 30, 2007 ..	1,251,500	\$0.11 TO \$0.81	\$0.33
	=====		

#### OTHER OPTIONS

The Company completed a non-brokered private placement of 1,750,000 Units at \$.20 per Unit (\$350,000), on December 10, 2002 to several accredited investors. Each Unit is comprised of one share of common stock and one three-year option to buy one additional common share at \$.20.

On October 24, 2005 the Company received proceeds of \$112,500 through the partial exercise of certain warrants relating to a previous private placement of its securities in December 2002. These funds were received from three individuals including two individuals who are (i) the Chairman of the Board and Interim President, and (ii) a second director of the Company.

On October 24, 2005, the Board of Directors adopted a resolution authorizing the extension of the exercise period for certain options to purchase common stock (the "Options") granted in connection with a private placement of securities by the Company from December 9, 2005 to December 9, 2007 (the "New Expiration Date") in consideration of the agreement of certain holders to immediately exercise a portion of the Options and purchase the underlying common stock. The shares underlying the original Options were registered by the Company under the Securities Act of 1933, as amended (the "Securities Act"). The shares of common stock underlying the Options totaled 1,750,000 shares or approximately 14.3% of the total outstanding shares of the Company.

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

Richard Banakus, the Chairman and acting President and a director, and Ronald J. Saul, a director of the Company, together with his spouse, Antonette G. Saul, are among the holders of the Options. Mr. Banakus assigned for nominal consideration certain of his Options exercisable for 250,000 shares to Mr. Saul and effective October 27, 2005 exercised Options representing an aggregate of 250,000 shares of common stock in consideration of the extension of the exercise period to the New Expiration Date for Options representing an aggregate of 750,000 shares of common stock. Mr. Saul exercised an aggregate of 250,000 shares and had Options representing an aggregate of 125,000 extended to the New Expiration Date. In 2006 Mr. Saul exercised the remaining 125,000 options. In addition in 2005, certain other holders of Options exercised Options representing an aggregate of 62,500 shares and had the exercise period for Options representing an aggregate of 62,500 shares extended to the New Expiration Date bringing the total number of shares represented by the new Options (the "New Options") exercisable at any time prior to the New Expiration Date to 812,500 or approximately 4.7% of the total outstanding shares.

	Options/ Warrants -----
Outstanding at December 31, 2006 .....	812,500
Stock options granted (including extended options) ..	-
Stock options exercised .....	-
Stock options expired .....	-
	-----
Granted and outstanding at September 30, 2007	812,500 =====

The Company has agreements with several consultants who provide financial, business and technical advice to the Company in connection with the research, development, marketing and promotion of its products and other matters. As part of their compensation, these consultants were granted warrants and nonqualified stock options to purchase shares of the Company's common stock at prices representing the fair market value of the shares at the date of grant. Activity with respect to options and warrants granted to these consultants is summarized below:

	Number of Options Warrants -----	Price Per Share -----	Average Exercise Price -----
Outstanding at December 31, 2006 ...	169,500	\$0.22 to \$0.66	\$0.53
Stock options expired .....	(132,500)		
	-----		
Outstanding at September 30, 2007 ..	37,000 =====	0.29 to 0.50	\$0.43

41

### OTHER WARRANTS

On November 14, 2003, the Company completed a non-brokered private placement of 2,210,000 Units at \$.50 per Unit (\$1,105,000) to accredited investors. Each Unit is comprised of one share of Common Stock and one five-year warrant to buy one additional Common Share at \$1.00. As of September 30, 2007, all 2,210,000 warrants are outstanding.

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

In June 2005, in connection with the loan payable, each Lender received a Common Stock Purchase Warrant entitling the holder to purchase One Hundred Thousand (100,000) shares of Common Stock at an exercise price of ten cents (\$.10) per share for a five-year period. The warrants were valued using the Black Scholes model at \$24,000, which will be amortized as interest expense over the life of the notes.

On May 20, 2007, the Company agreed to extend and amend certain of the terms of the loans (collectively, the "Loan Extension") made to the Company on June 14, 2005 (collectively, the "Original Loans") by Mr. Saul, Richard Banakus, the Chairman and a director of the Company, and Regis Synan (individually, a "Lender" and collectively, the "Lenders") in the amounts of \$50,000, \$50,000 and \$50,000, respectively. Under the terms of the Loan Extension, the Lenders agreed to extend the maturity date of the Original Loans from June 14, 2007 to June 14, 2008. In consideration for the Loan Extension, the Company agreed to grant each Lender a common stock warrant (the "Loan Extension Warrants") exercisable for Seventy Five Thousand (75,000) shares of the Common Stock for a five-year period at an exercise price of \$0.20 per share of Common Stock. The warrants were valued using the Black Scholes model at \$43,400, which is being amortized as interest expense over the life of the notes. As of September 30, 2007, 425,000 warrants are outstanding.

In February 2007, the Company completed a non-brokered private placement of 3,300,000 Units at \$.10 per Unit (\$330,000) to accredited investors. Each Unit is comprised of one share of Common Stock and one five-year warrant to buy one additional Common Share at \$.10. On March 21, 2007 the Company closed on the sale of an additional 500,000 Units at \$.10 per Unit (\$50,000) to an accredited investor. On July 18, 2007 the Company closed on the sale of an additional 250,000 Units at \$.14 per Unit (\$35,000) to an accredited investor. As of September 30, 2007, 3,550,000 warrants are outstanding.

On May 22, 2007, Ronald J. Saul, a director of Hydron Technologies, Inc., lent the Company One Hundred Thousand Dollars (\$100,000) (the "Loan"). The term of the Loan is six months and bears interest at the rate of ten percent (10%). Interest on the Loan is payable monthly and may be paid in cash, or at the option of the Company, in shares of common stock of the Company ("Common Stock"), valued for this purpose at the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common Stock traded. In addition, in consideration of the Loan, the Company has granted Mr. Saul a common stock warrant (the "Loan Warrant") exercisable for One Hundred Thousand (100,000) shares of Common Stock for a five-year period at an exercise price of \$0.2115 per share of Common Stock. The warrants were valued using the Black Scholes model at \$21,040, which is being amortized as interest expense over the life of the notes. As of September 30, 2007, 100,000 warrants are outstanding.

For the nine months ended September 30, 2007, interest expense includes \$14,919 representing the amortization of the debt discount.

42

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 nine month period ended September 30, 2007 and the year ended December 31, 2006:

	2007	2006
	-----	-----
Risk-free interest rate ..	5.3%	4.3%



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

Expected life .....	5 years	5 years
Expected volatility .....	183%	124%
Expected dividend yield ..	0%	0%

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.

The weighted average remaining contractual life of all options outstanding at September 30, 2007 was 0.91 years.

### NOTE 13 - STOCKHOLDERS' EQUITY

#### Common Stock

For the nine month period ended September 30, 2007 and 2006, the Company recorded stock-based compensation expense of \$31,553 and 18,880 respectively. For the year ended December 31, 2006, the Company recognized \$56,908 of stock-based compensation expense.

During the nine months ended September 30, 2007, the Company issued 625,000 shares of common stock in connection with the exercise of common stock options for net proceeds of \$66,788. Of these options, 600,000 were exercised at \$0.10, and 25,000 were exercised at \$0.2715

During the year ended December 31, 2006, the Company issued 199,500 shares of common stock in connection with the exercise of common stock options for net proceeds of \$44,535. Of these options, 125,000 were exercised at \$0.20, and 54,500 were exercised at \$0.20157, and 20,000 were exercised at .4275.

In connection with loans payable to the Company (Note 11) during the nine months ended September 30, 2007 the Company issued 161,108 shares of common stock and during the year ended December 31, 2007 the Company issued 113,400 shares of common stock. Interest on the loans may be paid in cash, or at the option of the Company, in shares of common stock of the Company ("Common Stock"), valued for this purpose at the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common Stock traded.

43

On February 1, 2007, the Company, commenced an offering of up to 3,300,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock having a total gross purchase price of \$330,000. On February 1, 2007 the Company closed on the sale of 2,100,000 Units resulting in gross proceeds to the Company of \$210,000. On February 5, 2007, the Company closed on the sale of an additional 1,100,000 Units resulting in gross proceeds to the Company of \$110,000. On February 8, 2007 the Company closed on the sale of an additional 100,000 Units resulting in gross proceeds to the Company of \$10,000. Among the individuals who purchased Units in the Offering were Richard Banakus, the Chairman, acting President, and a director of the Company, who purchased 350,000 Units, and Ronald J. Saul, a director of the Company who with his spouse

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

purchased 850,000 Units.

On March 21, 2007 the Company closed on the sale of an additional 500,000 Units resulting in gross proceeds to the Company of \$50,000 to Ronald J. Saul, a director of the Company, and his spouse jointly.

On July 18, 2007, the Company, sold 250,000 units ("Units") comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock, for each Unit sold for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007.

Under the terms of the Offering, the Company has agreed that in the event that the Company shall grant "piggy back" registration rights to any other party to cause the Company's Common Stock or any security exercisable or exchangeable for, or convertible into, shares of Common Stock to be included in a registration statement filed by the Company for sale by any selling shareholder or by the Company, the Company will grant the holders of the Shares and Warrants similar registration rights.

Each purchaser of Units is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act"). The Company issued the Shares and the Warrants without registration under the Securities Act in reliance on the exemptions from registration provided by Rule 506 of Regulation D and Section 4(2) of the Securities Act, as well as a preemption from applicable state registration requirements under Section 18(a) of the Securities Act.

The Company used the proceeds of the Offering to pay current obligations of the Company.

### NOTE 14 - RELATED PARTY

During February and March 2007 the Company commenced and closed on an Offering (Note 13). Among the individuals who purchasing Units in the Offering were Richard Banakus, the Chairman acting President and a director of the Company, who purchased 350,000 Units, and Ronald J. Saul, a director of the Company who with his spouse purchased 1,350,000 Units.

On May 20, 2007, the Company agreed to extend and amend certain of the terms of the loans (collectively, the "Loan Extension") made to the Company on June 14, 2005 (collectively, the "Original Loans") by Mr. Saul, Richard Banakus, the Chairman, acting President and a director of the Company, and Regis Synan (individually, a "Lender" and collectively, the "Lenders") in the amounts of \$50,000, \$50,000 and \$50,000, respectively. (Note 11). Under the terms of the Loan Extension, the Lenders agreed to extend the maturity date of the Original Loans from June 14, 2007 to June 14, 2008.

44

On May 20, 2007, the Board of Directors approved the grant to Mr. Saul of an option to purchase Two Hundred Thousand (200,000) shares of Common Stock (the "Option Grant"), with a grant date effective May 18, 2007, the last trading date for the Common Stock prior to the grant, for a five-year period at an exercise price of \$0.2115 per share of Common Stock, being the average of the high and low sale prices for a share of Common Stock averaged over the last ten days on which the Common Stock traded and having such other terms as provided in the Company's 2003 Stock Plan. The Board made the Option Grant to compensate Mr. Saul for services provided and to be provided by him in connection with the Company's financial and treasury operations, as well as the production of its

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

products. Mr. Saul will assume certain of Dr. Reitz's responsibilities on an interim basis.

On May 22, 2007, Ronald J. Saul, a director of Hydron Technologies, Inc., lent the Company One Hundred Thousand Dollars (\$100,000) (the "Loan"). The term of the Loan is six months and bears interest at the rate of ten percent (10%) (Note 11).

On July 18, 2007, the Company, sold 250,000 units ("Units") for a total gross purchase price of \$35,000 to Ronald J. Saul, a director of the Company, and his spouse jointly, pursuant to a Subscription Agreement dated July 18, 2007 (Note 13).

On August 14, 2007, Ronald J. Saul, a director of Hydron Technologies, Inc., lent the Company Twenty five Thousand Dollars (\$25,000) (the "Loan") (Note 11). The term of the Loan is two weeks and matures on August 28, 2007 and bears interest at the rate of ten percent (10%) per annum to be paid in cash at the expiration of the loan agreement. The loan expiration was extended until it was converted in the private offering dated October 3, 2007. Mr. Saul and his spouse paid for 200,000 Units in the private offering by the cancellation of the loan.

Subsequent to year end on October 3, 2007, the Company, closed on a private offering (the "Offering") of 1,400,000 units ("Units"), Among the individuals who purchased Units in the Offering is Ronald J. Saul, a director of the Company who together with his spouse purchased 300,000 Units pursuant to two separate subscription agreements (Note 17).

Subsequent to year end on October 30, 2007, the Company, closed on a private offering of 400,000 units ("Units"), Ronald J. Saul, a director of the Company, purchased the 400,000 Units together with his spouse pursuant to a subscription agreement dated October 30, 2007 (Note 17).

### NOTE 15 - COMMITMENTS

#### Lease

The Company currently leases 35,000 square feet of office space under three non-cancelable leases in St Petersburg, Florida which expire between April and September 2008. Rent expense for the nine months ended September 30, 2007 was approximately \$92,760. Rent expense for the year ended December 31, 2006 was approximately \$91,400 under these new leases. The Company also leases equipment. Equipment lease expense for the nine month period ended September 30, 2007 was \$19,289 and \$22,649 for the year ended December 31, 2006.

The leased property under capital leases as of September 30, 2007 had a cost of \$93,078, and accumulated depreciation of \$35,016. Amortization of the leased property is included in depreciation expense.

45

Future minimum lease payments for these leases at September 30 are as follows:

YEAR ENDING September 30, -----	CAPITAL LEASES -----	OPERATING LEASES -----
2008	\$31,951	\$124,115
2009	2,096	-
TOTAL MINIMUM LEASE OBLIGATION .....	34,047	124,115

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

LESS: INTEREST .....	(2,761)	-
	-----	-----
PRESENT VALUE OF TOTAL MINIMUM LEASE PAYMENTS ..	31,286	\$124,115
		=====
LESS: CURRENT PORTION .....	(29,233)	
	-----	
NON-CURRENT PORTION .....	\$ 2,053	
	=====	

### NOTE 16 - MANAGEMENT'S PLAN

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 anticipates that present working capital balances and internally generated funds will not be sufficient to meet our working capital needs for the next three months. It will be necessary to sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion on the Company's September 30, 2007 financial statements, since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

The Company's working capital deficit was approximately (\$532,000) at September 30, 2007, including cash and cash equivalents of approximately (\$15,000). Cash used by operating activities was \$607,576 and cash used in investing activities was \$2,150 during the year ended September 30, 2007. This was offset by proceeds from financing activities of \$602,786.

The Company has the following material debt; loan payable of \$150,000 borrowed from three shareholders in May 2005 (see Note 11), the loan payable of \$100,000 borrowed from one shareholder on May 22, 2007 (Note 11) and the loan payable of \$25,000 borrowed from one shareholder on August 14, 2007 (Note 11) and two capital leases for equipment purchases of \$31,286. The Company has substantial overdue trade accounts payables balances. There are no capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

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

- o Emphasize and expand the marketing and manufacturing of private label products.
- 46
- o Implement new direct sales and networking initiatives.
  - o Emphasize Catalog sales, including sales made over the Internet, since these sales have higher profit margins.
  - o Evaluate the possibilities of increasing direct marketing and direct response television exposure to build brand awareness and revenues.
  - o Team with third parties to build the advertising and promotion of the Hydron(R) brand, as the Company does not have the financial resources to sustain a national advertising campaign to support distribution of its production into retail stores.

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

- o Develop and market new product lines based on the Company's proprietary technologies.
- o Continue to reduce overhead and operating costs.
- o Obtain an infusion of capital that will sustain the Company's operation until the newly established licensing arrangements can produce positive cash flow.

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

### NOTE 17 - SUBSEQUENT EVENTS

On October 3, 2007, the Company, closed on a private offering of 1,400,000 units ("Units"), comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock. The Company received gross proceeds of One Hundred Seventy Five Thousand Dollars (\$175,000) from the sale of Units in the Offering.

Among the individuals who purchased Units in the Offering is Ronald J. Saul, a director of the Company who together with his spouse purchased 300,000 Units pursuant to two separate subscription agreements. Mr. Saul and his spouse paid for 200,000 Units by the cancellation of certain indebtedness owed to them by the Company evidenced by a promissory note in the principal amount of Twenty Five Thousand Dollars (\$25,000) and paid for 100,000 Units by payment in cash.

On October 30, 2007, the Company, closed on a private offering of 400,000 units ("Units"), comprised of one (1) share ("Share") of its Common Stock and one (1) warrant ("Warrant") for the purchase of one (1) share of Common Stock of the Company for each Unit purchased or a total of 400,000 Shares and 400,000 Warrants to purchase Shares. The Company received gross cash proceeds of Fifty Thousand Dollars (\$50,000) from the sale of Units in the Offering.

Ronald J. Saul, a director of the Company, purchased the 400,000 Units together with his spouse pursuant to a subscription agreement dated October 30, 2007.

47

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

None.

### ITEM 8A. CONTROLS AND PROCEDURES

As of the end of this period, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer concluded that the Company had material weaknesses associated with insufficient personnel resources with appropriate accounting experience and lack of controls relating to inventory valuation and segregation of inventory. During the second quarter management hired new personnel with appropriate accounting experience, and is in the process of implementing a perpetual inventory system which should mitigate

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

these material weaknesses in 2007.

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

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

Our management, including the Certifying Officer, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

48

### ITEM 8B. OTHER INFORMATION

None.

### PART III

### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

#### IDENTIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS

Listed below are the directors and executive officers of the Company as of September 30, 2007:

Name	Position
----	-----
Richard Banakus	Director, Chairman of the Board

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

Karen Gray	Director
Ronald J. Saul	Director
David Pollock	Director, Chief Executive Officer

### Business Experience

Richard Banakus, age 61, has served as Chairman, acting President and a director of the Company since June 1995 and as Interim President of the Company since September 19, 1997. From April 1991 to the present, Mr. Banakus has been a private investor with interests in a number of privately and publicly held companies. From July 1988 through March 1991, he was managing partner of Banyan Securities, Larkspur, California, a securities brokerage firm that he founded.

Karen Gray, age 49, has served as a director of the Company since December 1997 and was a consultant to the Company on marketing and communications matters from November 1996 to December 1999. Ms. Gray has over 17 years of management experience in marketing communications in various capacities with various companies. From 1993 to November 1996, Ms. Gray served as Vice President, Corporate Communications, of the Company. From June 1992 to November 1993, Ms. Gray served as President of MarCom Associates, Inc., a marketing communications company that she founded.

Ronald J. Saul, age 60, has served as a director of the company since January 2003. From September 1992 to the present, Mr. Saul has been a financial consultant. From October 1985 through August 1992, Mr. Saul was the Treasurer and Vice President of National Intergroup, a multi company holding company. From November 1970 to September 1985, Mr. Saul held various accounting and financial positions with National Intergroup Inc. and its predecessor company, National Steel Corporation.

David Pollock age 42, has served as a director of the Company and as CEO of the Company from July 1, 2005 to present. Mr. Pollock is responsible for developing a number of innovative products, including some of the early glycolic and alpha hydroxy acid products, the first mass market Vitamin C line, one of the best selling acne systems in the mass market, plus products for such brands as SkinCeuticals, Bliss, Shaklee, Ted Gibson, Vogue International, DermaFresh, Keri Lotion, CaliforniaBeauty, Desert Essence and more.

49

Mr. Pollock's experience in formulating is augmented by his product marketing background as the former Vice President of Product Development for the Home Shopping Network and his senior management position with the Fuller Brush company. Mr. Pollock has been a keynote speaker at various national conferences, written a number of articles for various consumer and trade publications, been a contributing writer to a text book on delivery systems for chemists, currently serves on the Scientific Advisory Committee for CTFA (Cosmetic Toiletries & Fragrance Association) and has served on the board for FCPMA (Florida Cosmetic Pharmaceutical Manufacturers Association).

### DIRECTOR AND OFFICER RESIGNATIONS

Dr. R. Douglas Reitz, an Executive Vice President of the Company, who had responsibilities that included oversight over production of the Company's products, resigned on May 17, 2007. Dr. Reitz was employed by the Company pursuant to an employment agreement dated as of July 1, 2005 (the "Employment Agreement"). In connection with Dr. Reitz's resignation, the Company and Dr. Reitz executed a Separation Agreement which paid Dr. Reitz his salary thru May 31, 2007 and all Vacation Pay he was entitled to in consideration for certain releases and agreements.

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

### CORPORATE GOVERNANCE

#### AUDIT COMMITTEE

The Audit Committee of the Board of Directors, comprised of Ronald Saul reviewed and discussed the audited financial statements with management. The audit committee has discussed with the independent auditors the matters required to be discussed by the statement on Auditing Standards No. 61 and No. 100 as amended (AICPA, Professional Standards, vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3600T. The audit committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and has discussed with the independent accountant the independent accountant's independence.

Based on this review and discussion, the audit committee recommended to the Board of Directors that the audited financial statements be included in the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 2007 and filed and the Securities and Exchange Commission.

#### AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Board of Directors has determined that the Company's audit committee does have a financial expert serving on the audit committee. Ronald Saul is the financial expert serving on the audit committee.

#### COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

The Company's officers, directors and beneficial owners of more than 10% of any class of its equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 ("Reporting Persons") are required under the Act to file reports of ownership and changes in beneficial ownership of the Company's equity securities with the Securities and Exchange Commission. Copies of those reports must also be furnished to the Company. Based solely on a review of the copies of reports furnished to the Company pursuant to the Act, the Company believes that during the year ended September 30, 2007 all filing requirements applicable to Reporting Persons were complied with.

50

#### CODE OF ETHICS

As of the date of this report, the Company has not adopted a Code of Ethics applicable to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions.

Although the Company recognizes the desirability of a Code of Ethics, it does not believe that the development of a comprehensive Code is necessary or a desirable use of the Company's limited financial resources, particularly given the simple administrative structure and limited number of management personnel of the Company. The Company intends to develop and adopt a suitable Code of Ethics when its financial condition and management structure warrants.

#### ITEM 10. EXECUTIVE COMPENSATION

##### SUMMARY COMPENSATION TABLE

The following table sets forth certain information about compensation



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

paid, earned or accrued for services by (i) our principal executive officer and (ii) our two most highly compensated executive officers, other than the principal executive officer, who served as executive officers at September 30, 2007, who earned in excess of \$100,000 ("Named Executive Officers"). In accordance with the transition rules implementing the new executive compensation disclosure requirements set forth in Securities Act Release No. 8732 (Aug. 29, 2006), we are disclosing in this Summary Compensation table only information concerning our fiscal year ended September 30, 2007.

Name and Principal Position	Year	Salary	Stock Option Award (1)	All Other Compensation	Total
David Pollock Chief Executive Officer (2)	2007	\$79,540	-	-	\$79,540

(1) Based upon the aggregate grant date fair value calculation in accordance with the Financial Accounting Standards Board ("FASB") Statement of Accounting Standard ("FAS") No. 123R, Share Based Payments. Our policy and assumptions made in valuation of share-based payments are contained in Note 12 to our September 30, 2007 financial statements.

(2) Mr. Pollock serves as our principal executive officer and has held such position since July 1, 2005.

### EMPLOYMENT AGREEMENTS

The Company has employment agreements with David Pollock, Chief Executive Officer of the Company, and Dr. Douglas Reitz, Executive Vice President of the Company. Each employment agreement expires on June 30, 2008 and each provides for an annual salary of \$106,000. Dr. R. Douglas Reitz, an Executive Vice President of the Company, resigned on May 17, 2007. In 2005 Mr. Reitz was issued 200,000 options. The options issued to Mr. Reitz were cancelled in 2007 when his employment terminated.

51

### OPTION GRANTS

During 2007, pursuant to the Company's 2003 Stock Plan, the Named Executive Officers, were granted options to purchase shares of the common stock of the Company exercisable at the fair market value on the date of grant. During 2007, no Named Executive Officer received a grant of options under the 2003 Option plan.

### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth certain information concerning outstanding stock awards held by the Named Executive Officers as of September 30, 2007.

Name	Number of Securities Underlying Options (#) Exercisable	Number of Securities Underlying Options (#) Unexercisable	Option Price	Option Expiration Date
David Pollock	-	400,000 (1)	\$.281	September 5, 2010

(1) Based on the Company reaching outlined performance goals. 200,000 shares vest automatically when the Company reaches \$3,000,000 in revenues within a period of no more than four consecutive quarters, and 200,000 shares vest when the Company generates a pre-tax earnings goal of \$1,000,000 in a period of no more than four consecutive quarters.

2003 STOCK PLAN

This 2003 Plan is designed to consolidate and replace two Stock Option Plans, which have expired; the 1993 Stock Option Plan and the 1997 Non-Employee Director Stock Option Plan. The purpose of the 2003 Plan is to assist the Company in attracting, retaining, and motivating key employees, officers, directors, and consultants by offering selected individuals an opportunity to acquire a proprietary interest in the success of the Company.

DIRECTOR COMPENSATION

The following table sets forth compensation paid, earned or accrued for service as a director in our fiscal year ended September 30, 2007.

Name	Fees Earned or Paid in Cash	Option Awards (1)	Total
Richard Banakus	\$11,554	\$ 3,646	\$15,200
Karen Gray	\$ 3,750	\$ 3,646	\$ 7,396
Ronald J. Saul	\$ 3,750	\$ 4,558	\$ 8,308

(1) Based upon the aggregate grant date fair value calculation in accordance with FAS No. 123R, Share Based Payments. Our policy and assumptions made in valuation of share-based payments are contained in Note 12 to our September 30, 2007 financial statements.

FEES

Employees of the Company who also serve as directors are not entitled to any additional compensation for such service, except for Mr. Richard Banakus. Because of his status as Interim President, Mr. Banakus is treated as a non-employee director. The Company does not have a written employment agreement with Mr. Banakus.

Non-employee directors, including for this purpose Mr. Banakus, each receive an annual fee of \$5,000 for serving on the Board of Directors. Such fees have not been paid but are accrued quarterly. As of September 30, 2007, unpaid directors' fees total approximately \$123,520.

OPTION GRANTS

In addition, pursuant to the terms of the Company's 2003 Stock Plan, in 2007, the Company granted each director options to purchase 20,000 shares of common stock having an exercise price equal to the fair market value of the Company's common stock on the date of grant, and awarded additional options for the purchase of 5,000 shares of common stock having an exercise price equal to the fair market value of the Company's common stock on the date of grant to directors serving on a committee of the Board of Directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

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

### RELATED STOCKHOLDER MATTERS

The following table sets forth information as of September 30, 2007 regarding (i) the share ownership of the Company by each person who is known to the Company to be the record or beneficial owner of more than five percent (5%) of the Common Stock, (ii) the share ownership of each director of the Company, (iii) the share ownership of the Chief Executive Officer of the Company and each other most highly paid executive officer of the Company who earned in excess of \$100,000 during the year ended September 30, 2007, and (iv) the share ownership of all directors and executive officers of the Company, as a group (five persons).

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Approximate Percent of Class -----
Richard Banakus 4400 34th Street North, Suite F St. Petersburg, FL 33714	4,408,050 (1)	23.16%
Karen Gray 4400 34th Street North, Suite F St. Petersburg, FL 33714	124,000 (2)	1.0%
Ronald J. Saul 4400 34th Street North, Suite F St. Petersburg, FL 33714	5,427,028 (3)	28.21%
David Pollock 4400 34th Street North, Suite F St. Petersburg, FL 33714	1,400,000 (4)	7.98%
All directors and executive officers as a group (4 persons)	11,359,078 (5)	52.50%

53

---

(1) Consists of 2,508,050 shares held directly and 1,900,000 shares issuable upon exercise of options and warrants.

(2) Consists of 24,000 shares held directly and 100,000 shares issuable upon exercise of options.

(3) Consists of 3,327,028 shares held directly and 2,100,000 shares issuable upon exercise of options.

(4) Consists of 1,000,000 shares held directly and 400,000 shares issuable upon exercise of options and warrants.

(5) Consists of 6,859,078 shares held directly and 4,500,000 shares issuable upon exercise of options.

#### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

No applicable transactions.

#### ITEM 13. EXHIBITS

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

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)
- 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)
- 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)

54

- 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

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

- 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)
- 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)
- 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)
- 55
- 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)

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

- 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 Annotte 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 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.(20)
- 10.33 Common stock Purchase Warrant dated October 30, 2007 in favor of Ronald J. Saul and Antonette G. Saul, jointly (20)
- 16. Letter from Daszkal Bolton LLP dated December 4, 2006 to the Securities and Exchange Commission (12)
- 23.1 Consent of Independent Registered Public Accounting Firm - Sherb & Co. LLP (filed herewith)

56

- 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)
- 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 (10)

- 
- (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.

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

- (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
- (19) Incorporated by reference to Form 8-K filed October 30, 2007

57

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees billed by the Company's principal accountants:

	2007	2006
	-----	-----
Sherb & Co., LLP -Audit fees .....	\$32,000	\$30,000
Sherb & Co., LLP 3/31, 6/30 10Q's .....	\$10,000	-
Daszkal Bolton LLP 3/31, 6/30,9/30 10Q's	-	15,000
Tax fees (Tax compliance and planning) .	5,430	8,453
	-----	-----
	\$47,430	\$53,453
	=====	=====

Under the procedures of the Company's audit committee, prior to engagement of the Company's auditors to provide audit services and non-audit services, the audit committee considers whether the provisions of such services would be compatible with maintaining the independence of the Company's principal accountants, and has determined that the provision of such services is compatible with such accountants' independence.

58

Edgar Filing: HYDRON TECHNOLOGIES INC - Form 10KSB

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/ David Pollock

-----  
David Pollock  
Chief Executive Officer  
Principal Financial and Accounting Officer

Dated: December 28, 2007

59

EXHIBIT INDEX

INDEX #

-----	-----
Consent of Independent Registered Public Accounting Firm - Sherb & Co. LLP	23.1
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	31.1
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	32.1

60