HYDRON TECHNOLOGIES INC
Form 10-Q
November 10, 2004

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

FORM 10-Q

(Mark One)
/X/ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended: September 30, 2004
or

/ / Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Period from __________ to __________

Commission File Number: 0-6333

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

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

2201 West Sample Road, Building 9, Suite 7B Pompano Beach, FL 33073	(954) 861-6400
(Address of Principal Executive Offices)	(Registrant's telephone number)

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

Number of shares of common stock outstanding as of November 10, 2004: 9,260,136

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HYDRON TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2004 (Unaudited)
ASSETS	
Current Assets	
Cash and cash equivalents	$ 559,704
Trade accounts receivable	937
Inventories	525,855
Prepaid expenses and other current assets	44,447
Total current assets	1,130,943
Property and equipment, less accumulated depreciation of $207,511 and $204,361 at 2004 and 2003, respectively	14,491
Deposits	19,588
Deferred product costs, less accumulated amortization of $155,686 and $133,186 at 2004 and 2003, respectively	158,730
Total Assets	$1,323,752
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable	$ 72,693
Loans payable	1,837

Royalties payable	26,837
Deferred revenues	93,813
Accrued liabilities	261,145
Total current liabilities	456,325
Commitments and contingencies	-
Minority interest in consolidated partnership	284,552
Shareholders' equity	
Preferred stock - $.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-
Common stock - $.01 par value 30,000,000 shares authorized; 9,320,336 shares issued; and 9,260,136 shares outstanding at 2004 and 2003, respectively	93,203
Additional paid-in capital	21,086,237
Accumulated deficit	(20,157,407)
Treasury stock, at cost; 60,200 shares	(439,158)
Total shareholders' equity	582,875
Total liabilities and shareholders' equity	$1,323,752

Note: The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEM

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HYDRON TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30, 2004	2003	Nine 200
		(Note)	
Net Sales	$ 200,975	$ 324,705	$
Cost of sales	75,324	113,597	
Gross profits	125,651	211,108	
Expenses			
Royalty expense	4,565	-	
Research and development	46,946	26,940	
Selling, general & administration	318,666	297,377	
Depreciation & amortization	8,550	49,770	
Total expenses	378,727	374,087	1,

Operating loss	(253,076)	(162,979)	(
Interest income - net of interest expense	942	(593)	
Loss before income taxes and minority interest	(252,134)	(163,572)	(
Minority interest in net loss	15,448	-	
Income taxes expense	-	-	
Net loss	$ (236,686)	$ (163,572)	$ (
Basic and diluted loss per share	$ (0.03)	$ (0.02)	$
Weighted average shares outstanding (basic and diluted)	9,260,136	7,050,136	9,

Note: Shipping and handling billings and costs have been reclassified from Selling, general, & administrative to Net sales and Cost of sales, respectively. These reclassifications have no effect on reported Net income.

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEM

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HYDRON TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended 2004	September 30, 2003
Operating Activities		
Net Loss	$ (585,624)	$ (528,959)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	25,650	149,310
Change in operating assets and liabilities		
Trade accounts receivables	9,254	1,690
Inventories	(5,822)	88,571
Prepaid expenses and other current assets	(10,025)	5,215
Deposits	-	1,228
Accounts payable	30,464	(45,604)
Royalties payable	(100,600)	-
Deferred revenues	(71,351)	58,903
Accrued liabilities	26,189	48,892
Net cash used in operating activities	(681,867)	(220,754)

Investing activities		
Capital Expenditures, net	-	(13,480)
Deferred product costs	(4,739)	(36,507)
Net cash used in investing activities	(4,739)	(49,987)
Financing activities		
Net cash used for repayment of loans payable	(2,966)	205,702
Change in amount due minority interest	284,552	-
Additional Paid in capital	-	-
Net cash provided from financing activities	281,586	205,702
Net decrease in cash and cash equivalents	(405,019)	(65,039)
Cash and cash equivalents at beginning of period	964,723	291,136
Cash and cash equivalents at end of period	$ 559,704	$ 226,097

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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HYDRON TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management of Hydron Technologies, Inc. (the "Company"), all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

The consolidated financial statements include the accounts of Hydron Technologies, Inc. and a majority owned limited liability limited partnership, Hydron Royalty Partners, LLLP. Hydron Royalty Partners, LLLP (the "Partners") was established in August 2004 by Hydron, the general partner, and ten limited partners for the purpose of paying outstanding and up to $30,000 annually of future royalties and licensing obligations in return for royalty and licensing payments due from Valera Pharmaceuticals, Inc. 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. All appropriate 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.

NOTE B - INVENTORIES

Inventories consist of the following:

	September 30, 2004	December 31, 2003
Finished goods	$ 106,435	$ 90,443
Raw materials and components	419,420	429,589
	$ 525,855	$ 520,032

HYDRON TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE C - DISTRIBUTION

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

NOTE D - EARNINGS PER SHARE

Effective January 1, 2004, the Company granted options to purchase 100,000 shares of common stock for $.659 to consultants. These options vest over 12 months.

Options and warrants to purchase 5,577,500 shares of common stock were outstanding at September 30, 2004, but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive. The outstanding options and warrants include 1,015,000 options the Board of Directors has approved, subject to the approval of a stock option plan amendment at the next shareholders' meeting on November 15, 2004.

There were no options granted to employees during the three months ended September 30, 2004 that would require adjustments to the pro forma information regarding net income and earnings per share required by FASB Statement No. 123, and it is unchanged from that reflected in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

NOTE E - ACCRUED LIABILITIES

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

	SEPTEMBER 30, 2004	DECEMBER 31, 2003

Dividends payable	$ 83,163	$ 83,163
Director fees payable	76,015	65,012
Professional fees	35,356	24,712
Other	66,611	62,067
	$ 261,145	$ 234,954

HYDRON TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE F - GOING CONCERN

The accompanying condensed consolidated financial statements were prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of operations. The Company's ultimate ability to attain profitable operations is dependent upon obtaining additional financing or achieving a level of sales adequate to support its cost structure.

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

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

BUSINESS

Hydron Technologies, Inc. continues to shift its primary focus to conducting research and development into products and medical applications utilizing its patented tissue oxygenation technology. In November 2003, Hydron received a US patent for its method of oxygenating skin and tissue topically, using microbubbles of pure oxygen averaging one micron in diameter, suspended in fluid. The super-oxygenation technology delivers pure oxygen through the skin to tissue depths considered therapeutic for wound healing and the maintenance of tissue viability. A topically applied oxygenated skin treatment could have numerous applications in wound healing and anti-aging skincare treatments.

Research and development efforts to date have included clinical testing, in-vitro bacteriological testing, micro-bubble size analysis, packaging prototypes, and stability testing. Following its successful pre-clinical test at the University of Massachusetts Medical School, Department of Thoracic Surgery, the Company commissioned a clinical test on healthy human subjects. This clinical test produced an average increase in subcutaneous tissue oxygenation of 54%. Management believes that these tests provided the first-ever evidence that subcutaneous tissue could be oxygenated from the outside in.

On November 14, 2003, Hydron completed a non-brokered private placement to accredited investors, raising $1.1 million, to accelerate its research and development program surrounding this oxygenation technology. The Company has also added expert clinical and regulatory consultants and is pursuing approval from the FDA to allow the use of its oxygenation technology for a number of medical applications.

In October 2004, the Company received notice from the FDA that Hydron's MicrO2 Oxygenation Apparatus is a device that will be reviewed and regulated by the Center for Devices and Radiological Health under the medical device provisions of the Federal Food, Drug, and Cosmetic Act. Hydron's MicrO2 Oxygenation Apparatus is a device intended to produce oxygenated water infused with micro-bubbles to use in topical oxygen therapy. The device would be used at the patient bedside or doctor's office to enhance wound healing. Further, the device is intended for adjunctive therapy (rather than sole treatment) for wounds such as skin ulcerations due to diabetes, venous stumps, post surgical infections and gangrenous lesions, decubitus ulcers, infected amputation stumps, skin grafts, burns, and frostbite.

The Company also markets a broad range of consumer 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. Additional patents have been applied for relating to a self-adjusting pH formulation for skincare and acne. The Company is developing other personal care/cosmetic products for consumers using its patented technology and would, when appropriate, seek licensing arrangements with third parties, or develop and market proprietary products through its own efforts.

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 of Partners. The establishment of the Partners allowed Hydron to meet its current and future royalty obligations and retain the possibility of a significant royalty income stream opportunity.

RESULTS OF OPERATIONS

Total net sales for the three months ended September 30, 2004 were $200,975, a decrease of $123,730 or 38.1% from net sales of $324,705 for the three months ended September 30, 2003. Skin care products net sales for the three months ended September 30, 2004 were $172,954, a decrease of $116,885 or 40.3% from sales of $289,839 for the three months ended September 30, 2003. Professional products net sales for the three months ended September 30, 2004 were $3,194, a decrease of $186 or 5.5% from sales of $3,380 for the three months ended September 30, 2003. Shipping and handling revenues for the three months ended September 30, 2004 were $24,826, a decrease of $4,456 or 15.2% from shipping and handling revenues of $29,282 in the three months ended September 30, 2003.

For the nine months ended September 30, 2004, total net sales were $923,204, a decrease of $36,718 or 3.8% from net sales of $959,922 for the nine months ended September 30, 2003. Skin care products net sales for the nine months ended September 30, 2004 were $828,169, a decrease of $18,178 or 2.1% from sales of $846,347 for the nine months ended September 30 2003. Professional products net sales for the nine months ended September 30, 2004 were $5,368, a decrease of $2,500 or 31.8% from sales of $7,868 for the nine months ended September 30, 2003. Shipping and handling revenues for the nine months ended September 30, 2004 were $87,842, a decrease of $11,439 or 11.5% from shipping and handling revenues of $99,281 in the nine months ended September 30, 2003.

Skin care products sales consist primarily of catalog sales and private label sales. During the three months ended September 30, 2004, direct marketing catalog sales decreased by $70,176 or 29.1% from $241,255 for the three months ended September 30, 2003 to $171,079. Private label sales for the three months ended September 30, 2004 were $1,875, a decrease of $19,493 or 91.2% from private label sales of $21,368 for the same period last year. These sales tend to fluctuate from quarter to quarter as purchase orders for individual items cover more than one year's supply. Purchase orders are received only approximately four to six times a year for the seven items in the line.

For the nine months ended September 30, 2004, direct marketing catalog sales decreased by $164,876 or 21.1% from $781,638 last year to $616,762 this year. Private label sales for the nine months were $211,407, an increase of $173,914 or 463.9% from private label sales of $37,493 for the same period last year. As stated above, these private label sales tend to fluctuate significantly from quarter to quarter.

Historically, over 98% of the Company's products are sold in the United States. The Company sells skin care products in Australia and dental products in Spain and Canada. These sales are not material at this time and represented 0.6% and 1.1% of total net sales for the three months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, sales outside the United States represented 0.5% and 0.6% of total sales for 2004 and 2003, respectively.

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

Cost of sales was $75,324 for the three months ended September 30, 2004, a decrease of $38,273 or 33.7% from cost of sales of $113,597 for the three months ended September 30, 2003. Cost of sales was 37.5% of total sales the three months ended September 30, 2004 compared to 35.0% for the three months ended September 30, 2003. The cost of sales percentage increased as the quarterly non-variable costs had to be absorbed by the lower sales level. Shipping and handling costs for the third quarter of 2004 were $29,806, a decrease of $6,419 or 17.7% from shipping and handling costs of $36,225 for the same period in 2003. This decrease reflects the decline in catalog sales.

For the nine months ended September 30, 2004, cost of sales was $378,776, an increase of $28,226 or 8.1% from cost of sales of $350,550 for the nine months ended September 30, 2003. Cost of sales was 41.0% of total sales for the nine months ended September 30, 2004 compared to 36.5% for the nine months ended September 30, 2003. The increase in cost of sales percentage reflects the impact of this period's significantly higher private label sales that include higher product cost (68.4% of sales) versus the product cost of catalog sales (18.1% of sales). Shipping and handling costs for the nine months were $97,744, a decrease of $28,200 or 22.4% from shipping and handling costs of $125,944 for the same period in 2003. This decrease reflects the 21.1% decline in catalog sales plus savings realized by performing more of the shipping and handling tasks in house.

The Company's overall gross profit margin decreased to 62.5% of net sales for the three months ended September 30, 2004 versus 65.0% for the three months ended September 30, 2003. This is due primarily to the impact of fixed costs on lower sales levels. For the nine months ended September 30, 2004 the overall gross profit margin decreased to 59.0% of net sales versus 63.5% for the same period in 2003. The decrease for the nine months reflects the impact of significant private label sales that have a lower margin than catalog sales.

Royalty expenses for the three months ended September 30, 2004 were $4,565. There were no royalty expenses for the first quarter of 2003. For the nine months ended September 30, 2004, royalty expenses were $27,384. No accrued royalty expenses were required in 2003 as the definition of applicable products was changed, creating a surplus accrual during 2003. That surplus has now been exhausted and the expense reflects the royalties due on sales for the period.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, obtain regulatory approval, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, and conduct consumer panel studies and focus groups. R&D expenses for the three months ended September 30, 2004 were $46,946, an increase of $20,006 or 74.3% over R&D expenses of $26,940 for the three months ended September 30, 2003. This increase is due principally to the Company's R&D work on its new oxygenation technology. For the nine months ended September 30, 2004, R&D expenses were $168,389, an increase of $96,503 or 134.2% over R&D expenses of $71,886 for the same period last year. The amount of R&D expenses per year will continue to increase as the oxygenation technology moves through the FDA approval process and the Company expands its research behind this technology.

Selling, general, and administrative ("SG&A") expenses for the three months ended September 30, 2004 were $298,833, representing a decrease of $1,456 or 0.5% from SG&A expenses of $297,377 for the three months ended September 30, 2003. Printing costs increased $10,226 for the production of annual reports and proxy statements for the shareholders' meeting in November, but this was offset by lower credit card processing fees and postage. For the nine months ended

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

September 30, 2004 selling, general, and administrative expenses were $906,847, a decrease of $10,306 or 1.1% from $917,153 for the same period last year.

Depreciation and amortization expense was $8,550 for the three months ended September 30, 2004, a decrease of $41,220 or 82.8% from $49,770 for the three months ended September 30, 2003. For the nine months ended September 30, 2004 depreciation and amortization was $25,650, a decrease of $123,660 or 82.8% from $149,310 for the same period last year. The decrease was due primarily to intangible assets becoming fully amortized by mid-2003. Fully amortized intangible assets of $5,370,000 were written off in 2003.

Net interest income was $942 for the three months ended September 30, 2004 compared to net interest expense of $593 for the three months ended September 30, 2003. The Company maintains a conservative investment strategy with respect to its cash balances, deriving investment income primarily from U.S. Treasury securities.

The Company had a net loss of $232,301, representing an increase of

$68,729 or 42.0% for the three months ended September 30, 2004 from the net loss of $163,572 for the three months ended September 30, 2003, a result primarily of the factors discussed above.

For the nine months ended September 30, 2004, the Company had a net loss of $581,238, an increase of $52,279 or 9.9% from net loss of $528,959 for the nine months ended September 30, 2003. The increase in the net loss is a result primarily of the factors discussed above.

LIQUIDITY AND FINANCIAL RESOURCES

The Company anticipates that present working capital balances and internally generated funds will not be sufficient to meet its working capital needs for the next twelve months. The development of the Company's oxygenation technology will depend on its ability to raise capital on commercially reasonable terms. The Company's working capital was approximately $674,618 as of September 30, 2004, including cash and cash equivalents of approximately $559,704. Cash used by operating activities for the nine months ended September 30, 2004 was $677,479. Net funds used for investing activities were $24,574 and financing activities provided $297,034 for the nine months ended September 30, 2004.

The Company does not have any material debt, long-term capital leases, or long-term operating leases. The lease on the current office facility expires August 31, 2005. There are no long-term capital expenditures under construction and no long-term commitments other than royalty payments under an agreement with GP Strategies Corporation (See note 5 to the Financial Statements included in the Company's Form 10-K dated December 31, 2003). The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

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. As of December 31, 2003 all 1,750,000 options are outstanding.

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

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 December 31, 2003, all 2,210,000 warrants are outstanding.

The Company has registered these outstanding shares and the 4,581,500 underlying shares of outstanding warrants and options with the Securities and Exchange Commission as required by the November 14, 2003 private placement agreement. The warrants/options are a future source of capital for the Company and could generate up to $2,560,000 if they are exercised.

Hydron Royalty Partners, LLLP (the "Partners") was established in August, 2004 by Hydron, the general partner, and ten limited partners for the purpose of paying outstanding and up to $30,000 annually of future royalty and licensing obligations in return for royalty and licensing payments revenues possibly due from Valera Pharmaceuticals, Inc. 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.

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

Management's plan includes the following elements:

- Obtaining FDA approval of the Company's oxygenation technology in marketing segments which are attractive to today's investor;

- Expanding the product line of existing private label customers, thus leveraging the Hydron polymer technology across multiple product lines;

- Effectively applying the Company's existing resources to achieve objectives that will attract the interest of new investors and strategic partners;

- Advancing the oxygenation technology in the medical segment so as to stimulate the interest of investors and strategic partners;

- Entering into joint ventures with strategic partners that can provide complimentary products, distribution, and manufacturing capabilities;

- Developing new skin care products for new private label customers utilizing Hydron's proprietary expertise to expand our product base;

- Licensing proprietary and possibly patentable technologies, including skin and tissue oxygenation, and the self-adjusting pH system for skin care and acne ingredient delivery, where appropriate to third party companies;

- Continuing emphasis on catalog sales, including sales made over the internet, since these sales have higher profit margins;

- Increasing use of direct marketing techniques to reach new and current consumers, such as print promotions mailed to targeted consumers, Web site specials, promotions to other Web site customers, and direct E-mail promotions to new customers;

- Adding new international distribution revenue streams through expanded use of distribution agreements with foreign and international distributors;

- Developing, acquiring, and marketing new product lines based on proprietary technologies that appeal to aging baby boomers as well as to a younger generation;

- Continuing to develop proprietary technology that the Company believes will improve its long-term success in the skin care business, such as the acne ingredient delivery system. The Company's super-oxygenated fluid and composition technology should facilitate significant advances in skin care products and open application and licensing opportunities beyond the skin care category;

- Entering into marketing, licensing, and distribution agreements with third parties, which have greater financial and distribution resources than those of the Company and that can enhance the Company's product introductions with appropriate national marketing support programs.

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 should Management's plan be unsuccessful.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectations, hopes, intentions, beliefs, or strategies regarding the future, including, without limitation, its plans regarding distribution and marketing of its products and the development, acquisition, and marketing of new products. Forward-looking statements include the Company's liquidity, anticipated cash needs and availability, and the anticipated expense levels under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

- The volatility of the price of the Company's common stock;
- The Company's ability to fund future growth;
- The Company's ability to be profitable;

- The Company's ability to attract and retain qualified personnel;
- General economic conditions in the medical and cosmetic markets;
- Market demand for and acceptance of the Company's products;
- Legal claims against the Company, including, but not limited to claims of patent infringement;
- The Company's ability to protect its intellectual property;
- Defects in the Company's products;
- The Company's obligation to indemnify certain customers;
- The Company's dependence on contract manufacturers and suppliers;
- The Company's dependence on a small number of customers for private label revenue;
- The Company's ability to develop and maintain relationships with key vendors;

- New regulations and legislation;
- General economic and business conditions;
- Other risks and uncertainties disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and in the Company's other filings with the SEC.

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

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ITEM 4. CONTROLS AND PROCEDURES

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

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date that the Company carried out its evaluation.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith).

31.2 Certification of Chief Operating Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith).

31.3 Certification of Chief Financial 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 Pursuant to 18 U.S.C., Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.2 Certification of Chief Operating Officer Pursuant to 18 U.S.C., Section

1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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

(b) Reports on Form 8-K:

On October 1, 2004 the Company filed a report on Form 8-K in connection with the establishment of Hydron Royalty Partners, LLLP, a limited liability limited partnership, for the purpose of funding existing royalty obligations.

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/: William A. Lauby

William A. Lauby
Chief Financial Officer and
Principal Accounting Officer

Dated: November 10, 2004