HYDRON TECHNOLOGIES INC
Form 10-Q
November 13, 2003

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, 2003

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 October 31, 2003: 8,820,136

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Hydron Technologies, Incorporated

Condensed Balance Sheets

	September 30, 2003 (Unaudited)	December 31 2002 (Note)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 226,097	$ 291,136
Trade accounts receivable	38,310	40,000
Inventories	653,958	742,529
Prepaid expenses and other current assets	34,792	40,007
Total current assets	953,157	1,113,672
Property and equipment, less accumulated depreciation of $559,569 and $552,459 at 2003 and 2002, respectively	15,819	9,448
Deposits	19,588	20,816
Deferred product costs, less accumulated amortization of $5,459,462 and $5,317,262 at 2003 and 2002, respectively	218,920	324,613
Total Assets	$ 1,207,484	$ 1,468,549
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities		
Accounts payable	$ 88,379	$ 133,983
Loans payable	205,702	--
Deferred revenues	155,293	96,390
Accrued liabilities	399,462	350,570
Total current liabilities	848,836	580,943
Commitments and contingencies	--	--
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; 7,110,336 shares issued; and 7,050,136 shares outstanding at 2003 and 2002, respectively	71,103	71,103
Additional paid-in capital	19,890,587	19,890,587
Accumulated deficit	(19,163,884)	(18,634,926)
Treasury stock, at cost; 60,200 shares	(439,158)	(439,158)
Total Shareholders' equity	358,648	887,606
Total liabilities and shareholders equity	$ 1,207,484	$ 1,468,549

Note: The balance sheet at December 31, 2002 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 notes to condensed financial statements.

HYDRON TECHNOLOGIES, INC.

Condensed Statement of Operations
(Unaudited)

	Three months ended September 30, 2003	2002	Nine mo 2003
Net Sales	$ 295,423	$ 305,281	$ 860
Cost of sales	77,372	58,900	224
Gross profits	218,051	246,381	636
Expenses			
Royalty expense	--	15,015	
Research and development	26,940	15,990	71
Selling, general & administration	304,320	344,552	943
Depreciation & amortization	49,770	75,000	149
Total expenses	381,030	450,557	1,165

Operating loss	(162,979)	(204,176)	(528
Interest income - net of interest expense	(593)	127	
Loss before income taxes	(163,572)	(204,049)	(528
Income taxes expense	--	--	
Net loss	$ (163,572)	$ (204,049)	$ (528
Basic and diluted loss per share Net loss per common share	$ (0.02)	$ (0.04)	$ (
Weighted average shares outstanding (basic and dilutive)	7,050,136	5,148,234	7,050

See notes to condensed financial statements.

HYDRON TECHNOLOGIES, INC.

Condensed Statements of Cash Flow
(Unaudited)

	Nine months ended September 30, 2003	2002
Operating Activities		
Net Loss	$(528,959)	$(596,547
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	149,310	225,000
Change in operating assets and liabilities		
Trade accounts receivables	1,690	33,564
Inventories	88,571	190,124
Prepaid expenses and other current assets	5,215	1,243
Deposits	1,228	(187
Accounts payable	(45,604)	75,725
Loans payable	--	--
Deferred revenues	58,903	(63,895
Accrued liabilities	48,892	15,614
Net cash used in operating activities	(220,754)	(119,359
Investing activities		
Capital Expenditures, net	(13,480)	--
Deferred product costs	(36,507)	(15,713
Net cash used in investing activities	(49,987)	(15,713
Financing activities		
Net cash provided from new loans payable	205,702	--

Net decrease in cash and cash equivalents	(65,039)	(135,072
Cash and cash equivalents at beginning of period	291,136	167,067
Cash and cash equivalents at end of period	$ 226,097	$ 31,995
Noncash investing and financing activities		
Market value of stock issued for license agreement	$ --	$ 55,250

See notes to condensed financial statements.

Hydron Technologies, Inc.
Notes to Condensed 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-month period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002.

Note B - Inventories

Inventories consist of the following:

	September 30, 2003	December 31, 2002
Finished Goods	$ 116,982	$ 208,748
Raw materials and components	536,976	533,781
	$ 653,958	$ 742,529

Note C - Distribution

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

Note D - Earnings Per Share

Options and warrants to purchase 2,246,500 shares of common stock were outstanding at September 30, 2003, but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive.

The Board of Directors has approved the issuance of an additional 743,500 options; subject to the approval of a stock option plan amendment at the next shareholders' meeting. These options have not been reflected in September 30, 2003 calculations since there are insufficient options available without the shareholders actions.

Hydron Technologies, Inc.
Notes to Condensed Financial Statements
(unaudited)

Note D - Earnings Per Share (continued)

There were no options granted during the nine months ended September 30, 2003 and the pro forma information regarding net income and earnings per share required by FASB Statement No. 123 is unchanged from that reflected in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Note E - Note Payable

On August 4, 2003, the Company reached an agreement with the Chairman of the Board of Directors and another Board Member to provide $200,000 of interim loans for Company operations until the Company can arrange for financing the development of its tissue oxygenation technology. The non-interest bearing bridge loan is an unsecured debt obligation convertible into shares of common stock of the Company together with a right to purchase 250,000 shares of Common Stock (Warrants). The loans mature when financing is obtained or in six months which ever occurs first. The exercise price of the Warrants shall be $0.50, the price of the new offering.

Note F - Subsequent Events

The Company has completed an initial escrow closing on a Private Placement offering. Through November 10, 2003, the Company has sold 2,170,000 shares of Common Stock and 2,170,000 Warrants to purchase an equal number of shares during the next five years at an exercise price of $1.00 per share, for $1,085,000 ($0.50 a Unit). After these shares are issued, the Company will have 9,220,136 shares of Common Stock outstanding and 4,416,500 Warrants and Options outstanding. The bridge loans in Note E were paid in full.

Note G - Going Concern

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

Application of Critical Accounting Policies and Estimates

The preparation of financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, investments, intangible assets, income taxes, restructuring, or contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe 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.

We believe the following critical accounting policies are significant in preparation of our financial statements.

Revenue Recognition

Hydron(TM) records product sales when persuasive evidence of an arrangement exists, shipment has occurred, the price to the buyer is fixed or determinable and collectibility is reasonably assured. A provision is made at the time sales are recognized for the estimated cost of product warranties.

Allowance for Doubtful Accounts

A majority of Hydron(TM) products (70% - 90%) are sold on a COD basis. Product sold on account is limited. Hydron(TM) generally computes an allowance for doubtful accounts by specifically reserving for customers known to be in financial difficulty. Therefore, if the financial condition of our customers were to deteriorate, we may have to increase our allowance for doubtful accounts. This would reduce our earnings and our cash flows.

Inventory Valuation

Hydron(TM) initially values inventory at actual cost to purchase and/or manufacture inventory. We periodically review these values to ascertain that the inventory continues to maintain a market value that is in excess of its recorded cost. Generally, reductions in value of inventory below cost are caused by our maintenance of stocks of products in excess of demand. We regularly review inventory quantities on hand and, where necessary, record provisions for excess and obsolete inventory based on either our estimated forecast of product demand and production requirement or historical trailing usage of the product. If our sales do not materialize as planned or at historic levels, we may have to increase our reserve for excess and obsolete inventory. This would reduce our earnings and cash flows.

Long-Lived Assets

Hydron(TM) reviews long-lived assets and certain identifiable intangibles held and used for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating the fair value and future benefits of its intangible assets, management performs an analysis of the anticipated undiscounted future net cash flows of the individual assets over the remaining amortization period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Application of Critical Accounting Policies and Estimates (continued)

Hydron(TM) recognizes an impairment loss if the carrying value of the asset exceeds the expected future cash flows. As of September 30, 2003 there was no deemed impairment of long-lived assets.

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.

Stock-based Compensation

The disclosure provision of Statement No. 148 has been adopted by the Company.

Business

Hydron Technologies, Inc. markets a broad range of consumer and oral health care products using a moisture-attracting ingredient (the "Hydron(R) polymer"), and owns a non-prescription drug delivery system for topically applied pharmaceuticals, which uses such polymer. 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.

The Company has been engaged in the development of various consumer products using Hydron(TM) polymers since 1986. The Company's products are designed to address concerns about aging, and include Hydron(TM) skincare, hair care, bath and body and sun care. The Company currently has thirty-six individual products available in the following product lines: skin care (21 products), hair care (6 products), bath and body (7 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(TM) Catalog and Web site www.hydron.com ("Catalog").

Management believes that the Company's product lines are unique and offer the following competitive benefits: the moisturizers 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Business (continued)

The Company's products are dermatologist tested and approved for all skin types. Products for use around the eye area are also ophthalmologist tested and safe for contact lens wearers. Most of the Company's 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.

Management believes that the Hydron(TM) 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: 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.

The Company discovered that the Hydron(TM) emulsion system also adjusts pH on the skin to match the pH of the stratum corneum, the skin's surface layer. It is evident in recent skin research (Kligman 2002) that the pH range of the emulsion system is ideal for contributing to the skin's natural healing process and enzyme production responsible for rebuilding the skin's lipid barrier. A patent application was filed February 14, 2002 to cover this technology, which also applies to a new acne treatment system.

Since August 2000, the Company has been researching and developing a new technology that provides a method for the delivery of oxygen into the skin and tissue at depths considered medically therapeutic without the use of the bloodstream. The Company filed for patent protection as of February 2001 and received a Notice of Allowance from the United States Patent and Trademark Office in July, 2003. The patent is expected to be issued in November. Management anticipates that as a result of its continuing research into tissue oxygenation, the Company's primary focus will begin to shift from personal care/cosmetic products to developing/licensing applications or products based upon this new technology. The Company plans to seek financing in order to pursue the research and development of this new technology into viable products.

This technology has far reaching implications in that oxygen can now be delivered into skin that does not receive sufficient oxygen from the bloodstream. Management believes that this approach to tissue oxygenation developed by Hydron(TM) is unique. It utilizes an existing technology that infuses liquid with oxygen at 20+ times normal levels to create a super-oxygenated liquid filled with micro-bubbles of highly pressurized oxygen. When placed in contact with the skin, the highly saturated fluid and micro-bubbles are transferred directly to the skin through osmosis and kinetic diffusion.

Research and development efforts to date have included clinical testing, in-vitro bacteriological testing, micro-bubble size analysis, packaging prototypes, and stability testing. Clinical testing on healthy subjects was conducted at the University of Massachusetts Medical School; Department of Thoracic Surgery producing an average increase in subcutaneous tissue

oxygenation of 54% in healthy individuals. Management believes that these tests provided the first-ever evidence that subcutaneous tissue could be oxygenated from the outside in.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Business (continued)

The skin treatment is expected to have numerous applications in wound healing and anti-aging skincare treatments. Current medical research shows that each year, in the United States alone, medical problems associated with oxygen deprivation to the skin and tissues can affect over 16 million diabetics, two million burn patients, 600,000 individuals with impaired circulatory systems and countless other applications, from individuals suffering with chronic wounds to extending the life of organs for transplant during transportation. Likewise, medical problems associated with anaerobic bacteria (i.e. organisms that thrive in the absence of oxygen) such as acne, diaper rash, post-operative infections and periodontal disease may be reduced or eliminated by application of this technology.

Oxygen is also an essential factor in aging as the facial skin loses about 40% of oxygen carrying capacity by age 65 (a factor in diminished collagen formulation and wrinkling). As a result, anti-aging/wrinkling applications of this technology may ultimately lead to a new line of skincare applications and products.

In July 2002, the Company reached an agreement for licensing existing machine technology from Life International Products, Inc. that included issuance of 325,000 shares of new Hydron(TM) stock and future royalty payments. This will allow Hydron(TM) to be able to manufacture future products under Hydron(TM)'s tissue oxygenation pending patent. The company plans additional efficacy testing to further evaluate the technology and future potential products. It is anticipated that efficacy testing will require an additional 12 to 24 months. Initial testing will be focused on cell viability and gene expression within oxygen-deprived tissues subsequently exposed to super-oxygenated saline solutions.

On December 10, 2002, Hydron(TM) completed a non-brokered Private Placement of 1,750,000 Units at $.20 per Unit ($350,000), to several accredited investors including its Chairman, Richard Banakus and a Director, Ronald J. Saul. Each Unit is comprised of one share of Common Stock and one three-year option to buy one additional Common Share at $.20. The proceeds were added to the Company's working capital and enabled Hydron(TM) Technologies to maintain its catalog business, while supporting basic development of Hydron(TM)'s patent pending skin and tissue oxygenation technology and associated intellectual property.

On August 4, 2003, the Company reached an agreement with the Chairman of the Board of Directors, Richard Banakus and Board Member, Ronald J. Saul, to provide $200,000 to cover operating expenses until the Company can arrange for additional financing. The non-interest bearing bridge loan is an unsecured debt obligation convertible into shares of common stock of the Company together with a right to purchase 250,000 shares of Common Stock (Warrants).

On October 15, 2003, the Company had an initial escrow closing on a Private Placement financing. To date, the Company has received Subscription

Agreements for 2,170,000 shares of Common Stock and 2,170,000 Warrants to purchase an equal number of shares during the next five years, at an exercise price of $1.00 per share and will receive $1,085,000 ($0.50 a Unit) in funds to finance the development of its tissue oxygenation technology. The above-mentioned loans from the Company Chairman and Director were paid and the proceeds from the Directors loans were reinvested into the Private Placement offering.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Business (continued)

The Company expects to extend the Private Placement offering through mid November.

The Company has also developed and currently markets a group of Hydron(TM) polymer-based products for dental professionals under the Hydrocryl(TM) brand name. These include a heat cured material used in the manufacture of dentures, as well as cold cure kits used in connection with the relining or repairing of existing Hydrocryl(TM) or conventional acrylic dentures that is necessitated by the continual changes that occur in the tissue structure of the mouth. Management believes that the hydrophilic, or moisture attracting properties, of these Hydron(TM) polymer-based products give them competitive advantages over conventional acrylic dentures and denture repair kits, which are not hydrophilic. Sales of Hydrocryl(TM) brand name products are minimal.

The Company is not dependent on any sole manufacturer except that the Company's ability to obtain additional supply of the Hydron(TM) polymer is dependent on GP Strategies Corporation (formerly known as National Patent Development Corporation) ("GPS") and its assignee, Valera Pharmaceuticals (formerly known as Hydro-Med Sciences, Inc.) ("Valera"), which owns certain proprietary information relating to the manufacture of the Hydron(TM) polymer. Under the terms of an agreement with GPS, if GPS is unable to manufacture and supply the Company with its requested quantity of Hydron(TM) polymer, GPS is obligated to provide the Company with information and assistance regarding all technology and manufacturing procedures (including know-how) possessed by GPS and use in connection with the manufacture of the Hydron(TM) polymer.

Valera has advised the Company that it has disposed of the equipment used in the manufacture of the Hydron(TM) polymer and no longer has the in-house capability of manufacturing the Hydron(TM) polymer. The Company is engaged in discussions with Valera regarding alternative sources for the Hydron(TM) polymer. Although the Company's inventory of the Hydron(TM) polymer is sufficient to satisfy current requirements, the loss of, or significant reduction in, a commercially suitable supply of the Hydron(TM) polymer would have a material adverse effect on the Company and its business.

Results of Operations

Net sales for the three months ended September 30, 2003 were $295,423; a decrease of $9,858, or 3%, from net sales of $305,281 for the three months ended September 30, 2002. Net sales for the nine months ended September 30, 2003 were $860,641; a decrease of $327,045 or 28% from net sales of $1,187,686 for the nine months ended September 30, 2002.

Catalog sales for the three months ended September 30, 2003 were $244,635, a decrease of $44,085, or 15%, from $288,720 for the three months ended September 30, 2002. Catalog sales for the nine months ended September 30, 2003 were $789,506, a decrease of $130,285 or 14% from catalog sales of $919,791 for the nine month ended September 30, 2002. The decrease in catalog sales for the three and nine months ended September 30, 2003 was the result of fewer promotions to existing customers and continued softness in the economy.

Non-catalog sales, including retail, contract and international sales, for the three months ended September 30, 2003 were $50,788; an increase of $34,227, or 207%, from non-catalog net sales of $16,561 for the three months

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations (continued)
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ended September 30, 2002. For the nine months ended September 30, 2003, non-catalog sales were $71,135, a decrease of $196,760, or 73%, from non-catalog sales of $267,895 for the nine month ended September 30, 2002. The non-catalog sales decrease for the quarter and year-to-date was primarily due to private label orders occurring later in the year and a decrease in sales to retail stores.

The Company's overall gross profit margin for the three months ended September 30, 2003 was 74%, as compared to 81% for the three months ended September 30, 2002. For the nine months ended September 30, 2003, the overall margins were 74% compared to 73% for the same period last year. The gross profit margins decreased for the quarter since non-catalog sales which have lower margins, represent a larger portion of the sales mix versus the same quarter last year.

Royalty expenses for the three months ended September 30, 2003 were $0 compared to $15,015 for the three months ended September 30, 2002. For the nine months ended September 30, 2003, royalty expenses were $0 compared to $59,410 for the same period last year. The elimination of royalty expenses is the result of an agreement in principle to eliminate the respective royalty obligations of the parties under the GP Strategies Corporation ("GPS") Agreement between the Company and Valera Pharmaceuticals as assignee of GPS.

Research and Development ("R&D") expenses for the three months ended September 30, 2003 were $26,940, an increase of $10,950 or 68% over R&D expenses of $15,990 for the three months ended September 30, 2002. For the nine months ended September 30, 2003, R&D expenses were $71,886, an increase of $22,906 or 47% over the $48,980 incurred last year for the same period. The amount of R&D expenses per year varies, depending on the nature of the development work during each year. The increase in 2003 is related to the Company's new tissue oxygenation technology.

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2003 were $304,320, a decrease of $40,232 or 12% under SG&A expenses of $344,552 for the three months ended September 30, 2002. For the nine months ended September 30, 2003, SG&A expenses were $943,816 a decrease of $182,670 or 16% under the $1,126,486 incurred for the same period last year. The decrease was principally due to decreased promotion, sales commissions, warehousing costs, payroll and professional expenses for both the three and nine month periods.

The net loss for the three months ended September 30, 2003 was $163,572, a decrease of $40,477 or 20% as compared to a net loss of $204,049 for the three months ended September 30, 2002. For the nine months ended September 30, 2003, the net loss was $528,959, a decrease of $67,588 or 11% under the net loss of $596,547 for the same period last year. The decrease in the net loss resulted primarily from the factors discussed above.

Liquidity and Financial Resources

The Company's working capital was approximately $104,321 at September 30, 2003, including cash and cash equivalents of approximately $226,097. Cash used by operating activities for the nine months ended September 30, 2003 was $220,754 and $49,987 was invested in equipment and patents. Cash provided from financing activities was $205,702 for the nine months September 30, 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Financial Resources (continued)

Subsequent to September 30, 2003, the Company has raised $1,085,000 through a Private Placement offering. These funds will finance the development of the Company's tissue oxygenation technology.

The Company has incurred significant losses over the past five years. The ability of the Company to continue as a going concern is dependent upon raising capital, and increasing sales while managing operating expenses.

Management's plan to increase sales and reduce operating expenses includes the following elements:

- Managements plan to secure additional financing in order to pursue the research and development of the Company's new patented technology and to fund current operations.
- Licensing proprietary and possibly patentable technologies, including skin and tissue oxygenation and the acne ingredient delivery system, where appropriate to third party companies.
- Continued emphasis on Catalog sales, including sales made over the internet, since these sales have higher profit margins and represent markets for the Company that are growing more rapidly than the Company's traditional television market.
- Increased 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.
- Addition of new revenue streams through expanded international distribution achieved through the use of distribution agreements with foreign and international distributors.
- Development, acquisition and marketing of new product lines based on proprietary technologies that appeal to the aging baby boomers as well

as the new generation.

- In addition, the Company has plans to build upon its success in private label sales utilizing Hydron(TM) polymer based formulas. The Company is also pursuing international distribution agreements that will expand the Company's distribution around the world.

- Regarding new products and markets, the Company will continue to develop proprietary technology that it 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 allow significant advances in skin care products and open application and licensing opportunities beyond the skin care category.

- The Company does not have the financial resources to sustain a national advertising campaign to support distribution of its products in conventional retail stores. In view of the foregoing, Management's strategy has been to enter into marketing, licensing and distribution agreements with third parties which have greater financial resources

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Financial Resources (continued)
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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

Certain statements contained in this Report on Form 10-Q 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. Forward looking statements include the Company's liquidity, anticipated cash needs and availability, and the anticipated expense levels under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward looking statements included in this document are based on information available to the Company on the date of this Report, and the Company assumes no obligation to update any such forward looking statement. It is important to note the Company's actual results could differ materially from those expressed or implied in such forward looking statements. You should also consult the Company's Annual Report on Form 10-K for the year ended December 31, 2002 as well as those factors listed from time to time in the Company's other reports filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 and the Securities Act of 1933.

Item 4. Controls and Procedures

As of the end of this period, Hydron Technologies, Inc. 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 Hydron Technologies, Inc.'s 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 Hydron Technologies, Inc.'s disclosure controls and procedures are effective to timely alert them to material information required to be included in Hydron Technologies, Inc.'s Exchange Act filing.

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

Item 6. Exhibits and Reports on Form 8-K

Current Reports on Form 8-K

None.

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

Dated: November 12, 2003

EXHIBIT INDEX EXHIBIT NUMBER

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

Certification of Chief Operating Officer pursuant to Section 302 of the

Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K	31.2
Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K	31.3
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	32.1
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	32.2
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	32.3