

or a smaller reporting company.

Large Accelerated Non-accelerated Smaller reporting
accelerated filer " filer " company x
filer "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No x

| | |
|--------|----------------------------------|
| Class | Outstanding at December 31, 2008 |
| Common | 4,772,318 |

HYDROMER, INC.

INDEX TO FORM 10-Q
December 31, 2008

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| # 1 Legal Proceedings | N/A |
| # 2 Change in Securities | N/A |
| # 3 Default of Senior Securities | N/A |
| # 4 Submission of Motion to Vote of Security Holders | N/A |
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EXHIBIT INDEX

| Exhibit No. | Description of Exhibit | |
|-------------|--|----|
| 33.1 | <u>SEC Section 302 Certification – CEO certification</u> | 9 |
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Part I – Financial Information
Item # 1

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | December 31, 2008 UNAUDITED | June 30, 2008 AUDITED |
|---|-----------------------------------|-----------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,040,045 | \$ 108,403 |
| Trade receivables less allowance for doubtful accounts of \$59,647 and \$79,790 as of December 31, 2008 and June 30, 2008, respectively | 1,037,321 | 1,100,388 |
| Inventory | 860,188 | 1,022,660 |
| Prepaid expenses | 147,937 | 149,726 |
| Deferred tax asset | 8,976 | 8,976 |
| Other | 9,291 | 7,147 |
| Total Current Assets | 3,103,758 | 2,397,300 |
| Property and equipment, net | 3,299,805 | 3,339,270 |
| Deferred tax asset, non-current | 596,105 | 620,157 |
| Intangible assets, net | 861,120 | 820,858 |
| Total Assets | \$ 7,860,808 | \$ 7,177,585 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 496,536 | \$ 595,412 |
| Short-term borrowings | - | 289,973 |
| Accrued expenses | 305,673 | 345,480 |
| Current portion of capital lease | 13,493 | 13,095 |
| Current portion of deferred revenue | 124,218 | 88,051 |
| Current portion of mortgage payable | 44,320 | 230,160 |
| Income tax payable | 4,560 | 1,652 |
| Total Current Liabilities | 988,800 | 1,563,823 |
| Deferred tax liability | 281,398 | 281,398 |
| Long-term portion of capital lease | 58,216 | 65,310 |
| Long-term portion of deferred revenue | 39,219 | 49,461 |
| Long-term portion of mortgage payable | 2,844,456 | 1,647,873 |
| Total Liabilities | 4,212,089 | 3,607,865 |
| Stockholders' Equity | | |
| Preferred stock – no par value, authorized 1,000,000 shares, no shares issued and outstanding | - | - |
| Common stock – no par value, authorized 15,000,000 shares; 4,783,235 shares issued and 4,772,318 shares outstanding | 3,721,815 | 3,721,815 |

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as of December 31, 2008 and June 30, 2008

| | | |
|--|--------------|--------------|
| Contributed capital | 633,150 | 633,150 |
| Accumulated deficit | (700,106) | (779,105) |
| Treasury stock, 10,917 common shares at cost | (6,140) | (6,140) |
| Total Stockholders' Equity | 3,648,719 | 3,569,720 |
| Total Liabilities and Stockholders' Equity | \$ 7,860,808 | \$ 7,177,585 |

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended December 31, | | Six months Ended December 31, | |
|---|------------------------------------|-------------|----------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | UNAUDITED | UNAUDITED | UNAUDITED | UNAUDITED |
| Revenues | | | | |
| Sale of products | \$ 1,235,533 | \$ 943,558 | \$ 2,353,601 | \$ 2,139,261 |
| Service revenues | 497,750 | 413,094 | 1,012,076 | 784,319 |
| Royalties and Contract Revenues | 416,418 | 401,874 | 819,993 | 794,159 |
| Total Revenues | 2,149,701 | 1,758,526 | 4,185,670 | 3,717,739 |
| Expenses | | | | |
| Cost of Sales | 854,238 | 707,317 | 1,646,556 | 1,510,808 |
| Operating Expenses | 1,191,534 | 1,134,681 | 2,344,548 | 2,208,887 |
| Other Expenses | 46,916 | 38,197 | 87,567 | 81,040 |
| Provision for (Benefit from) Income Taxes | 20,320 | (35,354) | 28,000 | (45,354) |
| Total Expenses | 2,113,008 | 1,844,841 | 4,106,671 | 3,755,381 |
| Net Income (Loss) | \$ 36,693 | \$ (86,315) | \$ 78,999 | \$ (37,642) |
| Income (Loss) Per Common Share | | | | |
| | \$ 0.01 | \$ (0.02) | \$ 0.02 | \$ (0.01) |
| Weighted Average Number of Common Shares | | | | |
| Outstanding | 4,772,318 | 4,747,984 | 4,772,318 | 4,725,337 |
| Outstanding assuming dilution | 4,773,655 | n/a | 4,772,986 | n/a |

The effects of the common stock equivalents on diluted earnings per share for the 2007 periods are not included as their effect would be anti-dilutive.

For 2008, there was no impact to earnings per share from dilutive securities.

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months Ended December 31, | |
|---|----------------------------------|-------------|
| | 2008 | 2007 |
| | UNAUDITED | UNAUDITED |
| Cash Flows From Operating Activities: | | |
| Net Income (Loss) | \$ 78,999 | \$ (37,642) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation and amortization | 207,339 | 209,622 |
| Charge-off of Patent Costs | 63,242 | - |
| Deferred income taxes | 24,052 | (48,219) |
| Changes in Assets and Liabilities: | | |
| Trade receivables | 63,067 | 189,294 |
| Inventory | 162,472 | 46,391 |
| Prepaid expenses | 1,789 | 39,840 |
| Other assets | (2,144) | 12,016 |
| Accounts payable and accrued liabilities | (138,683) | (158,579) |
| Deferred income | 25,925 | 61,858 |
| Income taxes payable | 2,908 | (2,876) |
| Net Cash Provided by Operating Activities | 488,966 | 311,705 |
| Cash Flows From Investing Activities: | | |
| Cash purchases of property and equipment | (92,292) | (98,248) |
| Cash payments on patents and trademarks | (185,802) | (106,680) |
| Net Cash Used for Investing Activities | (278,094) | (204,928) |
| Cash Flows From Financing Activities: | | |
| Net borrowings against Line of Credit | (289,973) | (52,470) |
| Repayment of long-term borrowings | (1,889,257) | (105,950) |
| New long-term borrowings | 2,900,000 | - |
| Proceeds from the issuance of common stock | - | 78,000 |
| Net Cash Provided by (Used for) Financing Activities | 720,770 | (80,420) |
| Net Increase in Cash and Cash Equivalents: | 931,642 | 26,357 |
| Cash and Cash Equivalents at Beginning of Period | 108,403 | 146,338 |
| Cash and Cash Equivalents at End of Period | \$ 1,040,045 | \$ 172,695 |

Supplemental Non-Cash Investing & Financing Activities:

| | | |
|--|------|--------|
| Equipment acquired under Capital Lease | \$ - | 63,747 |
|--|------|--------|

HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Notes to Consolidated Financial Statements

In the opinion of management, the accompanying unaudited financial statements include all adjustments (consisting of only normal adjustments) necessary for a fair presentation of the results for the interim periods. Certain reclassifications have been made to the previous year's results to present comparable financial statements.

Long-Term Debt And Credit Facility:

On September 4, 2008, the Company refinanced its mortgages, tapping into its available equity to borrow an additional \$1.1 million in order to provide it with the required funds to repay its maturing Line-of-Credit facility and to provide for additional working capital. The Line-of-Credit facility was repaid and closed out in September 2008.

Subsequent Event:

A Supply and Support Agreement providing for revenues of \$100,000 per month was cancelled by the customer in January 2009.

Segment Reporting:

The Company operates two primary business segments. The Company evaluates the segments by revenues, total expenses and earnings before taxes. Corporate Overhead is excluded from the business segments as to not distort the contribution of each segment.

The results for the six months ended December 31, by segment are:

| | Polymer Research | Medical Products | Corporate Overhead | Total |
|--------------------------|---------------------|---------------------|-----------------------|--------------|
| 2008 | | | | |
| Revenues | \$ 2,419,215 | \$ 1,766,455 | | \$ 4,185,670 |
| Expenses | (1,748,483) | (1,542,106) | \$ (788,082) | (4,078,671) |
| Pre-tax Income (Loss) | \$ 670,732 | \$ 224,349 | \$ (788,082) | \$ 106,999 |
| 2007 | | | | |
| Revenues | \$ 2,102,470 | \$ 1,615,269 | | \$ 3,717,739 |
| Expenses | (1,620,718) | (1,392,965) | \$ (787,052) | (3,800,735) |
| Pre-tax Income (Loss) | \$ 481,752 | \$ 222,304 | \$ (787,052) | \$ (82,996) |

Geographic revenues were as follows for the six months ended December 31,

| | 2008 | 2007 |
|----------|------|------|
| Domestic | 83% | 82% |
| Foreign | 17% | 18% |

Item #2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The Company's revenues for the quarter ended December 31, 2008 were \$2,149,701, 22.2% higher than the \$1,758,526 for the same period the previous year. Revenues for the six months ended December 31, 2008 were \$4,185,670 or 12.6% higher than the \$3,717,739 in the corresponding period a year ago. Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales and services were \$1,733,283 for the quarter ended December 31, 2008 as compared to \$1,356,652 for the same period the year before, a 27.8% increase or \$376,631. For the six months ended December 31, 2008, product sales and services were \$3,365,677, 15.1% or \$442,097 higher than the \$2,923,580 the year before. There was growth of all product line sales over the prior year, particularly in Medical Coatings (in part from a customer stock up), the T-HEXX Animal Health line and the Cosmetics product line. Contract coating services continues to grow (accounts for 2/3 of the service revenue increase) and a new funded R&D project accounted for the remainder of the Services Revenues increase for the current fiscal year.

Royalty and Contract revenues include royalties received and the periodic recurring payments from license, option and other agreements for other than product and services. Included in Royalty and Contract revenues are revenues from support and supply agreements. Some of the royalties and support fees are based on the net sales of the final item (to which the Hydromer technology is applied to) and are subject to the reporting of our customers. For the quarter ended December 31, 2008, Royalty and Contract revenues were \$416,418, comparable to the \$401,874 the same period a year ago. Royalty and Contract revenues were \$819,993 and \$794,159 for the six month periods ended December 31, 2008 and 2007, respectively.

As of December 31, 2008, our open sales order book was approximately \$1,498,000. Although some of the sales orders can be cancelled prior to production, the Company is of the opinion that no substantial cancellations will occur.

Total Expenses for the quarter ended December 31, 2008 were \$2,113,008 as compared with \$1,844,841 the year before, a 14.5% increase. For the six months ended December 31, 2008, Total Expenses were \$4,106,671 as compared with \$3,755,381 the same period the year before, or higher by 9.4%.

The Company's Cost of Goods Sold was \$854,238 for the quarter ended December 31, 2008 as compared with \$707,317 the year prior, higher by 20.8%. On a year-to-date basis, Cost of Goods Sold was \$1,646,556 for fiscal 2008 as compared with \$1,510,808 in fiscal 2007, \$135,748 or 9.0% higher. The increase in Cost of Goods Sold is due to the increase in product and service sales.

Operating expenses were \$1,191,534 for the quarter ended December 31, 2008 as compared with \$1,134,681 the year before, up \$56,853 or 5.0%. For the six months ended December 31, 2008, Operating expenses were \$2,344,548 as compared with \$2,208,887 the year before, up \$135,661 or 6.1%. During the quarter ended December 31, 2008, the Company wrote-off \$63,242 in patent application costs. In addition, increases in utilities costs and property taxes due to a reassessment of the property value, along with increased marketing expenses related to the introduction of the new T-HEXX products, plus an added trade show, increased Operating expenses this fiscal year.

Interest expense, interest income and other income are included in Other Expenses. Interest expense for the six months ended December 31, 2008 and December 31, 2007 were \$100,005 and \$87,348, respectively, up due to the mortgage refinance in September 2008 which provided the Company an additional \$1 million in cash, used in part to payoff and close the line-of-credit facility.

Net income of \$36,693 (\$0.01 per share) is reported for the quarter ended December 31, 2008 as compared to a loss of \$86,315 (\$0.02 per share) the year before. For the six months ended December 31, 2008, net income of \$78,999 (\$0.02 per share) is reported as compared to a net loss of \$37,642 (\$0.01 per share) the year before.

A drop in revenues during the quarter ended December 31, 2007 (including lost revenues from the transfer of production of a product line to our customer's facilities) led to the year-to-date loss in fiscal 2008. With revenue growth, we are reporting \$0.02 earnings per share this fiscal year-to-date. The current fiscal year's results includes the effect of a patent write-off.

Re-investment expenditures of Research and development and patents expenditures accounted for approximately \$393,764 or 16.8% of the operating expenses.

Financial Condition

Working capital increased \$1,281,481 during the six months ended December 31, 2008.

Net operating activities provided \$488,966 for the six month period ended December 31, 2008.

Net income as adjusted for non-cash expenses, provided \$373,632 in cash. The collections of accounts receivables and in-advances (deferred income), change in deferred income taxes, and reduction to inventories less the repayment of accounts payable and accrued liabilities provided an additional \$112,781 source of cash.

Investing activities used \$278,094 and financing activities provided \$720,770 during the six months ended December 31, 2008.

During the six months, the Company expended \$92,292 on capital expenditures and \$185,802 into its patent estate. The Company also paid down \$289,973 to close its revolving line of credit and \$1,824,386 against its ten-year mortgages by refinancing into a \$2,900,000 twenty-five year mortgage.

Based upon the notice of non-renewal of the Company's line-of-credit at its maturity in September 2008, the Company refinanced its mortgage allowing for the resources required for payoff of the line-of-credit and for additional liquidity. The new mortgage, effective September 2008, provided for \$1,046,796 in cash for such and was a twenty-five year loan compared to the previous mortgages which were ten-year loans. As of December 31, 2008, the Company had \$1,040,045 in cash and cash equivalents, compared with \$108,403 as of June 30, 2008. Also as of June 30, 2008, outstanding on the line-of-credit was \$289,973 (\$351,672 at payoff). In summary, the Company was able to eliminate the short-term borrowing balance (line-of-credit), while maintaining the cash taken out from the refinance from cash generated from its operations. The January 2009 cancellation of the \$100,000 per month Supply and Support Agreement does strongly impact our cash flows. The Company would need to "bridge" the lost revenues, through revenue growth, some through its recent developments and agreements, including the new T-HEXX products introduced in late 2008.

Item # 3

Disclosure Controls and Procedures

As of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and President and the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures.

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures were effective and that there were no changes to our Company's internal control over financial reporting that have materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting during the period covered by the Company's quarterly report.

PART II – Other Information

The Company operates entirely from its sole location at 35 Industrial Parkway in Branchburg, New Jersey, an owned facility secured by a mortgage through a bank.

The existing facility will be adequate for the Company's operations for the foreseeable future.

Item # 6. Exhibits and Reports on form 8-K:

a) Exhibits – none

b) Reports on form 8-K – The Company filed two Form 8-K's during the quarter ending December 31, 2008. Both 8-K reported press releases issued by the Company regarding the entering of Sales Representation Agreements to represent Hydromer and negotiate medical coating services and royalty/fee based license agreements in China and Taiwan on its behalf.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on his behalf by the undersigned thereunto duly authorized.

HYDROMER, INC.

/s/ Robert Y. Lee, VP
Robert Y. Lee
Chief Financial Officer

DATE: February 17, 2009

