HYDROMER INC
Form 10-K
October 13, 2011
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D. C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2011

Commission File Number 0-10683

HYDROMER, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State of incorporation)

22-2303576

(I.R.S. Employer Identification No.)

35 Industrial Parkway, Branchburg, New Jersey

(Address of principal executive offices)

08876-3424

(Zip Code)

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

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

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

Common Stock Without Par Value

(Title of class)

Check whether the issuer (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 report(s) and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No( )

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K (X)

The aggregate market value of the voting stock held by non-affiliates of the Registrant at September 15, 2011 was approximately $2,039,615.

The number of shares of Registrant's Common Stock outstanding on September 15, 2011 was 4,772,318.

Portions of the Audited Financials Statements for the year ended June 30, 2011 are incorporated by reference in Part II of this report. Portions of the Proxy Statement of Registrant dated September 23, 2011 are incorporated by reference in Part III of this report.

FORWARD-LOOKING STATEMENTS

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

PART I

Item 1. BUSINESS

General

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

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

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

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

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

MEDICAL

From its inception in 1980 to mid-1984, the Company was primarily engaged in R&D activities related to Hydromer coatings used on medical devices. Since then and until the acquisition of BMPI, the Company's business in the medical field consisted of the sale of lubricious coatings and the licensing of its lubricious coating technologies. With the acquisition of BMPI in February 2000, the Company was able to offer a horizontally integrated breadth of services including medical device manufacturing, contract coating, equipment building and design, and R&D servicing. However, in 2009, the Company sold most of its OEM medical device product lines in order to focus on its coatings technologies, effectively exiting the OEM medical device manufacturing business.

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

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

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

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

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

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

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

Stand-still and License/Supply and Support Agreements

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

The Company has previously reported license or support agreements in effect and expiring relating to applications of the Hydromer as follows: Annual Report on Form 10-K for the fiscal years ended June 30, 1983 through 1996 and 2009 to 2010 and Form 10-KSB for fiscal years ended 1997 through 2008.

Supply and Support Agreements

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

As of June 30, 2011, the Company has supply and support agreements with 30 companies covering the application or availability of Hydromer coatings to the following devices:

- angioplasty balloon catheters,
- biliary and pancreatic stents,
- cardiovascular implantables,
- cardiovascular microcatheters,
- central venous catheters,
- embolization delivery devices,
- enteral feeding products,
- female contraceptive devices,

- foley catheters,
- guidewires,
- guiding and umbilical catheters,
- infusion microcatheters,
- inter/intra-ocular lenses,
- intra-occular lense inserts,
- liposuction devices,
- neurovascular microcatheters,
- PTCA catheters,
- urinary catheters,
- certain urological devices, and
- certain vascular devices.

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

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Hydrogels, Drug Delivery, Wound Dressing

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

The Company's hydrogel technology offers biocompatibility, flexibility, and ease of use and processing. It also allows for the stabilization of biomolecules, cell cultures, drugs and other active substances without potentially damaging external energy sources. It is absorbent, inherently self-adhesive but peels away cleanly and is naturally soothing. Other than our bio-adhesives and medical coatings, which are one part systems, to form the gel entails simply to mix the two parts together: no heat, no chemical cross linkers nor expensive high energy processing is required. Many competitive technologies are much more process intensive and require external energy to crosslink. The Company believes these products are synergistic to our existing hydrogel technologies, and offer further opportunities in internal and topical actives delivery. The Company has a pilot coating machine to facilitate the commercialization of its hydrogel technologies. The Company is exploring other medical and dental as well as cosmetic applications for this technology.

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

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

OEM Medical Devices

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

HYDROMER Coating Services

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

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

R&D and Engineering Services

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

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

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

INDUSTRIAL/COMMERCIAL

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

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

COSMETICS

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

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

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

ANIMAL HEALTH

In Fiscal Year 1999, the Company's polymer technology was used to launch the Company's entry into the Animal Health field to combat clinical and sub-clinical mastitis, a problem that costs U.S. dairy farmers an estimated $2 billion per year, and worldwide an estimated $5 billion. Barrier Dips and Sprays utilizing *T-HEXX* technology offered dairy farmers exceptional value and unsurpassed protection as the first no-drip and water resistant barrier products on the market preventing environmental water containing mastitis-causing organisms, including mycoplasma, from reaching the inner teat surface. The Company has received three patents for its unique barrier teat dip compositions with an application on a fourth patent pending.

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

In fiscal 2002, the Company launched a complementary product, *T-HEXX* DRY External Teat Protection Sealant, to protect cows during the non-lactation ("dry cow") period. *T-HEXX* DRY is used as a non-irritating low-cost sealant during the dry-off and the critical pre-calving period where it is estimated that over 50% of new mastitis cases are believed to start. *T-HEXX* DRY is the first dry cow dip product with an anti-microbial that remains on the teat for 3-7 days. Clinical studies show that *T-HEXX* DRY is impervious to National Mastitis Council (NMC) recognized mastitis-causing organisms for seven days, yet is comparably priced to existing dry cow teat sealants that do not offer such protection. Our product is suggested to be used on cows just prior to their release to the dry cow pen, in conjunction with existing antibiotic therapy or internal teat sealants. In fiscal 2004, two customers launched our Dry product under their private-label name, reflecting the strength of our product.

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

During fiscal 2010, the Company launched *T-HEXX* DRY Naturel™ External Teat Sealant, a triclosan free external teat sealant for dry cows, Sani-Spray™ non-barrier dips and sprays and **Dragonhyde**® Hoof Bath Concentrate ("**Dragonhyde** HBC"). **Dragonhyde** HBC competes against Copper Sulfate and Formalin in hoof baths yet it does not

contain such heavy metals or carcinogenic products. An independent clinical study conducted by Cornell University and published in the August 2010 edition of the Journal of Dairy Science concluded that **Dragonhyde** HBC outperformed typical Copper Sulfate and Formalin usage.

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

Products

Coating solutions for use on medical devices, cosmetic intermediaries, hydrogels and teat barrier dips/sprays are manufactured and sold by the Company to its customes. The Company is selling anti-fog solutions to manufacturers of greenhouse panels, refrigerator freezer doors, swim goggles, industrial safety equipment, aircraft windows and meter covers, both in the U.S. and foreign countries. Until 2010, the Company also sold OEM medical devices through its Biosearch Medical Products subsidiary.

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

Dependence Upon Customers

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

Potential Applications

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

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

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

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

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

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

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

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

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

Research and Development

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

Competition

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

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

capabilities, durability and cost.

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

Marketing

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

1. *Commercialization of its existing technologies:* The Company intends to expand its efforts to market its current technology to the medical, industrial, personal care and animal health markets. The Company has expanded its capabilities to prototype and manufacture for customers to demonstrate the value of Hydromer technology. The Company will also seek opportunities to apply its technology in new applications where the technology will offer a benefit. Further, the Company will seek customers for technologies that have been developed but are not currently generating revenue, capitalize on the technology that has been created through its R&D efforts and to expand the application of current technologies.

2. *Sale of Development Services:* The Company intends to continue moving its effort away from straight technology licensing and toward contract product development, contract manufacturing, supply and support arrangements and coating services (see “5. Coating Services”). The Company has significant expertise in polymer development and applications. By exhibiting at an increased number of trade shows in the medical device fields, the Company expects to generate interest in its technology and products, with a view toward acting as an outside product development arm and development supplier for companies in these fields.

3. *Joint Development:* The Company will continue to seek joint development programs, co-marketing programs and other business arrangements with potential partners.

4. *Licensing/Support Services:* The Company will continue its endeavors to license or make available its technology to current market leaders in the medical device, pharmaceutical and other fields, whereby the Company will grant exclusive or non-exclusive rights for the Hydromer coating treatment of existing or new products, and the development of specific products utilizing its foam and hydrogel technology under its patents. In return, the Company generally would earn royalties/support fees based on sales of such treated or new products. Such agreements will usually be very narrow. The activities leading to the consummation of an agreement normally are lengthy and require establishing a scientific dialogue with potential customers, treating samples supplied by that customer with Hydromer coatings, determining if the treatment is feasible and cost effective, testing the coated products in a laboratory and then negotiating a mutually acceptable option agreement. A stand-still fee may be paid by the customer which would give the customer exclusive rights to use the Hydromer treatment on the specified product for a defined time period. During such period, the customer can test market the coated product and/or determine its ability to treat the product in its own manufacturing process. If the customer determines that the subject product should be treated with Hydromer coating on a commercial basis, it may either perform the Hydromer coating treatment itself under a support agreement with the Company, through the Company’s Contract Coating unit or it may have a third party perform the Hydromer

coating treatment.

5. *Coating Services:* The Company will serve the customer who needs products coated with lubricious or anti-fog coatings in production runs that are economically feasible without substantial investments in fixturing and automation. Typically this would be prototypes or runs of low volume, high value products. Higher volume products could be accommodated if they were physically small and did not require extensive fixturing or because for technical reasons they could not be automated and were of high enough value to warrant the added cost. The Company will pursue large volume projects if they fall within a technical area where the Company has particular expertise.

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

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

Patents and Trademarks

As of June 30, 2011, the Company has six U.S. patents, two U.S. applications and various foreign counterparts. The Company’s existing patents covers hydrophilic coatings and foams, hydrophilic polymer blends, anti-bacterial medical and cosmetic materials, non-leaching biostatic coatings, barrier film and barrier teat dip and hoof bath compositions and Chitosan gels and others.

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

Legal action was initiated against a former licensee and other parties in fiscal 2004 on the basis of infringement of the Company’s barrier teat dip patented technology. Settlement was made in early calendar 2006 with all parties, authenticating both the validity of the technology as well as ownership of such.

Employees

As of June 30, 2011, the Company and its subsidiary had forty-three active full-time employees. The Chief Executive Officer is Manfred F. Dyck, who is also Chairman of the Board. The Company does not have a collective bargaining agreement with any of its employees and considers its relationship with its employees to be very good.

Government Regulations

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

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

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

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

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

Executive Officers

The executive officers of the Company are as follows:

Name	Position with Company	Age as of Aug. 31, 2011
Manfred F. Dyck	Chariman of the Board, Chief Executive Officer and President	76
Martin C. Dyck	Executive Vice-President, Operations and President BiosearchMedical Products subsidary	49
Rainer Gruening	Vice-President, Intellecutal Property, T-HEXX Int'l Sales	68

John Konar	Vice-President, Quality Assurance and Director of Human Resources	62
Robert Y. Lee	Vice-President, Finance, Chief Financial Officer and Treasurer	45
Robert J. Moravsik	Senior Vice-President, General Counsel and Secretary	68

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

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

Rainer Gruening joined the Company as Vice-President of Research and Development in June 2001, and in May 2006 became VP of Intellectual Property and in 2010, added the title of VP, T-HEXX International Sales. With a Ph.D. in Chemistry from the University of Marburg in Germany, his background includes service with Bayer AG/Deutsche Solvay Werke, Troy, G+G International and AM Cosmetics in areas including international regulatory affairs, coatings technology and anti-microbials. Mr. Gruening authored and/or co-authored 17 patents and 35 publications on synthesis and formulation of anti-microbials for paint and coatings, cosmetics, personal care products, medical coatings, adhesives, marine anti-fouling and metal working fluids and developed dossiers, safety assessments and GMP documentation. Additionally, he implemented FDA/CTFA, European Biocide and Japanese compliance requirements for raw materials and formulation restrictions.

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

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

Robert J. Moravsik has been Senior Vice-President, General Counsel and Secretary since February 2000. He holds a B.S. in Aerospace Engineering, an M.S. in Computer Science and a Doctorate in Law. He was Vice-President and General Counsel since April 1998. He also serves in the same capacity for Biosearch Medical Products, Inc. an affiliated company since 1987. Prior to that, he was Vice-President and General Counsel to Fisher Stevens, Inc., a subsidiary of the Bureau of National Affairs. He is an attorney admitted in the states of New Jersey and New York.

Item 2. PROPERTIES

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

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

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

Item 3. LEGAL PROCEEDINGS

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Prior to January 9, 1986, the Company's Common Stock was traded in the over-the-counter market on the National Association of Securities Dealer's Automated Quotation System (NASDAQ) under the symbol "HYDI". Subsequent to January 9, 1986, reporting of trading was transferred to the National Daily Quotation Service (commonly known as the "Pink Sheets"). For the past twenty-five years, trading in the Company's stock has been limited.

On February 13, 2002 the Company became a listed security on the Boston Stock Exchange ("BSE") under the trading symbol "HDO" until the BSE ceased trading activities in 2007. The Company's current active ticker symbol is: "HYDI.PK".

The Company's common stock traded at prices ranging between $0.32 and $0.99 in the fiscal year 2011 and between $0.30 and $1.10 in the fiscal year 2010. These prices may not include retail mark-ups or mark-downs or any commission to the broker dealer.

The approximate number of holders of record of the Common Stock on September 15, 2011 was 216. There are approximately 500 individual shareholders of the common stock.

Item 6. MANAGEMENT DISCUSSION AND ANALYSIS

The below discussion analyzes major factors and trends regarding the results of operations and the financial condition of the Company as of June 30, 2011, and its results of operations for the prior fiscal period. It should be read in conjunction with the Financial Statements and Notes thereto.

Revenues for the year ended June 30, 2011 were $5,515,015 as compared to $6,200,504 for the same period last year, a decrease of $685,489 (11.1%).

Product sales and services revenues were $4,548,066 for the 2011 fiscal year as compared to $5,205,245 the prior fiscal year, a 12.6% decrease or $657,179.

License royalties and contract payments were $966,949 in fiscal 2011, comparable to the $995,259 the year before.

Management Comment: The prior fiscal year's product sales (fiscal 2010) included approximately $809,000 in sales from the now divested OEM medical device product lines. Discounting such sales, our revenues grew 3.4% (approximately $101,000) primarily in our T-HEXX Animal Health division (Dragonhyde Hoof Bath Concentrates sales) in Europe.

We look to continue to our growth by expanding our footprint in the Animal Health Division through sales and marketing (additional sales representatives, tradeshows, etc), new product launches (Dragonhyde PUTTY, new barrier

dips) and distribution agreements. There is also a continual conversion of existing Contract coating service customers into a polymer [product] sales customer based upon our equipment sales and/or pilot program validation (customer's establishment of their market and ability to coat themselves). Accordingly, we anticipate a gradual reduction to our services income with an offsetting increase in polymer sales for our [human] medical division.

One of our technologies, through one of our customers, is under FDA review. We expect a major increase to our license royalties and contract payments revenues once that is finalized, which would be is about a year or two.

Total Expenses for the year ended June 30, 2011 were $6,096,313, an improvement of 9.8% or $663,543 lower than the 2010 fiscal year results of $6,759,856.

Cost of Goods Sold was $1,590,776 for fiscal 2011 as compared to $2,405,023 for fiscal 2010. Operating Expenses were $4,626,341 and $4,978,695, for the years ended June 30, 2011 and 2010, respectively. Other Expenses added $206,258 to expenses for fiscal 2011 as compared with $173,405 for fiscal 2010. There was an Income Tax Benefit of $327,062 for fiscal 2011 and $461,638 for fiscal 2010. Reducing expenses in fiscal 2010 was a one time Gain from Sale of Assets of $335,629.

Management Comment: The exit from the higher cost OEM medical device business (the remainder of the OEM business was sold in November 2009 with a transitional sales period until April 2010) resulted in lower product sales and hence, lower material costs for fiscal 2011. There was also the applicable labor, outside sterilization costs and support costs [personnel] which are no longer present for fiscal 2011 and beyond (some of the support costs carried into fiscal 2011 before being enacted upon). We are now a more streamlined organization: we had 72 employees prior to the sale of product lines in fiscal 2009 & 2010, compared with 43 at this year end.

Excluding the direct costs of the activity of the sold product lines and its after-tax gain from the sale, our fiscal 2010 Total Expenses would have been $6,404,375 (or with the current fiscal year $308,062 or 4.8% better). The Cost of Goods for fiscal 2010 when excluding the sold medical product lines would have approximated $1,586,000 or about that of fiscal 2011 despite having approximately $101,000 more in product sales this fiscal year, reflecting the higher cost of the divested line. The overall improvement to Operating Expenses ($4,626,341 vs. $4,978,695, for the years ended June 30, 2011 and 2010, respectively or an improvement of $352,354), was primarily related with personnel reductions available following the divestiture. A lower pre-tax loss reduced the Income Tax Benefit for fiscal 2011 ($327,062 as compared with $461,638 for fiscal 2010; with fiscal 2010 including the netting of the income taxes due from the sale of the product lines).

Among all of this activity, we continue our "re-investment": Research & Development expenditures (primarily salaries and benefits) and funding to the patent and trademark estate, the costs of which are included in the Company's Operating Expenses. Although these costs translate to minimal value in the current period, they more provide for future results, for example from new product development to the protection of such, accordingly they are regarded as "re-investment" costs. These expenditures represented 18.5% and 21.6% of total Operating Expenses (or $855,398 and $1,075,175) for the years ended June 30, 2011 and 2010, respectively.

A Net Loss of $581,298 ($0.12 per share) is reported for the 2011 fiscal year compared with a Net Loss of $559,352 ($0.12 per share) for the 2010 fiscal year.

Management Comment: The Company is still reeling in from the cancellation and subsequent replacement of a significant Supply and Support Agreement (effective January 1, 2009) that reduced revenues and cash by $780,000 annually. The Company though expects its new products and focus in its Animal Health division to carry the

Company back into profitability, and that the timing would be soon.

Liquidity and Capital Resources

Working Capital as of June 30, 2011 was $1,196,607 compared against $1,961,322 the prior year or lower by $764,715.

Compared against June 30, 2010, the June 30, 2011 cash and cash equivalent balance was lower by $341,013, short-term investments lower by $390,000, accounts receivable lower by $145,499, inventory and the current portion of deferred tax asset higher by $196,035 and $122,100, respectively and current liabilities higher by $186,301.

Management Comment: Cash Used in Operating Activities was $378,006 and the cash used for property and equipment and intangibles (the patent estate and trademarks) totaled $301,708. Included in the cash used was $855,398 as "re-investment" costs (R&D and patent and trademark costs) that yields more future benefits than for the current period. The Company expects growth from it's T-HEXX Animal Health business alone to be sufficient to return the Company back into profitability and that it would be in the very near future.

Item 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For information concerning this item, see pages F-1 through F-8 of the "Audited Financial Statements for the year ended June 30, 2011," which information is incorporated herein by reference.

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

Not applicable.

Item 8a. DISCLOSURE CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes to our Company's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on our assessment, we believe that, as of June 30, 2011, the Company's internal control over financial reporting is effective based on those criteria.

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

· Segregation of Duties (control deficiency)

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

· Reporting Controls over Inventory (control deficiency)

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

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

Securities and Exchange Commission.

PART III

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information concerning this item, see "Item 1. Business - Executive Officers" and pages 3 through 11 in the Proxy Statement filed with respect to the 2011 Annual Meeting of Shareholders (the “Proxy Statement”), which information is incorporated herein by reference.

Item 10. EXECUTIVE COMPENSATION

For information concerning this item, see page 9 of the Proxy Statement, which information is incorporated herein by reference.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the past fiscal year, there have been no related party transactions.

PART IV

Item 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

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

(a) 2. Financial Statement Schedules:

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

(a) 3. Exhibits (not included)

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

(b) Current Reports on Form 8-K:

The Company filed two Form 8-K's during the year ended June 30, 2011: one reporting the naming of its Dragonhyde® Hoof Bath Concentrate as a 2011 World Ag Expo Top Ten New Product and the other reporting the Proxy Ballot results from the December 1, 2010 Annual Meeting of Shareholders.

POWER OF ATTORNEY

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

SIGNATURES

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

HYDROMER, INC.

/s/ Manfred F. Dyck	/s/ Robert Y. Lee
Manfred F. Dyck	Robert Y. Lee
President, Principal Executive Officer, Chairman of the Board of directors.	Chief Accounting Officer
17-Aug-11	17-Aug-11

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

/s/ Manfred F. Dyck	/s/ Ursula M. Dyck
Manfred F. Dyck	Ursula M. Dyck
President, Principal Executive Officer, Chairman of the Board of directors.	Director

17-Aug-11

/s/ Robert H. Bea
Robert H. Bea
Director

17-Aug-11

/s/ Dieter Heinemann
Dieter Heinemann
Director

17-Aug-11

/s/ Michael F. Ryan
Michael F. Ryan
Director

17-Aug-11

17-Aug-11

/s/ Maxwell Borow
Maxwell Borow
Director

/s/ Frederick L. Perl
Frederick L. Perl
Director

17-Aug-11

/s/ George A. Ziets
George A. Ziets
Director

17-Aug-11

INDEX TO 2011 10-K CERTIFICATIONS

Exhibit No. Description

31.1 Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).

31.2 Certification of Robert Y. Lee, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Manfred F. Dyck, Chief Executive Officer of Hydromer, Inc.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Robert Y. Lee, Chief Financial Officer of Hydromer, Inc.

EXHIBIT 31.1

HYDROMER, INC.

SARBANES-OXLEY ACT SECTION 302(a) CERTIFICATION

I, Manfred F. Dyck, certify that:

1. I have reviewed this annual report on Form 10-K of Hydromer, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer, Robert Y. Lee, and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2011

By: /s/ Manfred F. Dyck
Manfred F. Dyck
Chairman and Chief Executive Officer

EXHIBIT 31.2

HYDROMER, INC.

SARBANES-OXLEY ACT SECTION 302(a) CERTIFICATION

I, Robert Y. Lee, certify that:

1. I have reviewed this annual report on Form 10-K of Hydromer, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer, Manfred F. Dyck, and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2011

By: /s/ Robert Y. Lee
Robert Y. Lee
Vice President, Chief Financial Officer

EXHIBIT 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

I, Manfred F. Dyck, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Hydromer, Inc. on Form 10-K for the fiscal year ended June 30, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Hydromer, Inc.

Date: October 13, 2011 By: /s/ Manfred F. Dyck

Manfred F. Dyck

Chairman and Chief Executive Officer

EXHIBIT 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

I, Robert Y. Lee, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Hydromer, Inc. on Form 10-K for the fiscal year ended June 30, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Hydromer, Inc.

Date: October 13, 2011 By: /s/ Robert Y. lee

Robert Y. Lee

Vice President, Chief Financial Officer

Hydromer, Inc. & Subsidiary

Consolidated Financial Statements

June 30, 2011 and 2010

Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of Hydromer, Inc. & Subsidiary

We have audited the accompanying balance sheets of Hydromer, Inc. & Subsidiary as of June 30, 2011 and 2010 and the related statements of operations, stockholders' equity and cash flows for each of the years in the two year period ended June 30, 2011. Hydromer, Inc. & Subsidiary's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hydromer, Inc. & Subsidiary as of June 30, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ Rosenberg Rich Baker Berman & Company

Somerset, New Jersey

October 13, 2011

Hydromer, Inc. & Subsidiary

Index to the Consolidated Financial Statements

June 30, 2011 and 2010

Page: Financial Statements

Hydromer, Inc. & Subsidiary

Consolidated Balance Sheets

.	**2011**	June 30, 2010
Assets		
Current Assets:		
Cash and cash equivalents	$**502,597**	$ 843,610.
Short-term investments	**50,000**	440,000.
Trade receivables less allowance for doubtful accounts of $5,622 and $33,276 as of June 30, 2011 and 2010, respectively	**774,753**	920,252.
Inventory	**444,604**	248,569.
Prepaid expenses	**209,241**	227,338.
Deferred tax asset	**122,100**	-.
Other	**13,547.**	15,487.
Total Current Assets	**2,116,842**	2,695,256.
Property and equipment, net	**2,863,912**	2,988,536.
Deferred tax asset, non-current	**1,196,704**	1,011,945.
Intangible Assets, net	**820,231**	839,722.
Total Assets	$**6,997,689**	$ 7,535,459.
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$**387,094**	$ 342,030
Accrued expenses	**313,626**	251,276
Current portion of capital leases	**18,687**	16,000
Current portion of deferred revenue	**149,108**	75,828
Current portion of mortgage payable	**51,720**	48,800
Total Current Liabilities	**920,235**	733,934
Deferred tax liability	**294,012**	318,375
Long-term portion of capital leases	**15,398**	34,716
Long-term portion of deferred revenue	**120,940**	165,813
Long-term portion of mortgage payable	**2,714,817**	2,769,036
Total Liabilities	**4,065,402**	4,021,874
Contingencies		
	-	-
Stockholders' Equity		
Preferred stock – no par value, authorized 1,000,000 shares, no shares	-	-

issued and outstanding		
Common stock – no par value, authorized 15,000,000 shares; 4,783,235 shares issued and 4,772,318 shares outstanding as of June 30, 2011 and 2010	**3,721,815**	3,721,815
Contributed capital	**633,150**	633,150
Accumulated deficit	**(1,416,538)**	(835,240)
Treasury stock, 10,917 common shares at cost	**(6,140)**	(6,140)
Total Stockholders' Equity	**2,932,287**	3,513,585
Total Liabilities and Stockholders' Equity	$**6,997,689**	$ 7,535,459

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Operations

	Year Ended June 30,	
	2011	2010
Revenues		
Sale of products	$**3,105,959**	$3,784,164
Service revenues	**1,442,107**	1,421,081
Royalties and Contract Revenues	**966,949**	995,259
Total Revenues	**5,515,015**	6,200,504
Expenses		
Cost of Sales	**1,590,776**	2,405,023
Operating Expenses	**4,626,341**	4,978,695
Other Expenses, net	**206,258**	173,405
Gain from Sale of Assets	**-**	(335,629)
Benefit from Income Taxes	(327,062)	(461,638)
Total Expenses	**6,096,313**	6,759,856
Net Loss	$(581,298)	$(559,352)
(Loss) Per Common Share	$(0.12)	$(0.12)
Weighted Average Number of Common Shares Outstanding	**4,772,318**	4,772,318

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

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Stockholders' Equity

	Common Stock		Contributed	Accumulated	Treasury Stock		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
Balance June 30, 2009	4,783,235	$3,721,815	$ 633,150	$ (275,888)	10,917	$(6,140)	$4,072,937
Net Loss				(559,352)			(559,352)
Balance June 30, 2010	4,783,235	$3,721,815	$ 633,150	$ (835,240)	10,917	$(6,140)	$3,513,585
Net Loss				(581,298)			(581,298)
Balance June 30, 2011	4,783,235	$3,721,815	$ 633,150	$ **(1,416,538)**	10,917	$(6,140)	$**2,932,287**

See notes to the consolidated financial statements.

Hydromer, Inc. & Subsidiary

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2011	2010
Cash Flows From Operating Activities:		
Net Loss	$**(581,298)**	$(559,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain from the sale of product lines	**-**	(335,629)
Depreciation and amortization	**431,793**	428,451
Deferred income taxes	**(331,222)**	(448,467)
Changes in Assets and Liabilities		
Trade receivables	**145,499**	138,726
Inventory	**(196,035)**	70,787
Prepaid expenses	**16,794**	(23,058)
Other assets	**641**	(19,175)
Accounts payable and accrued liabilities	**107,415**	(128,620)
Deferred revenues	**28,407**	(1,512)
Income taxes payable	**-**	(77,953)
Net Cash Used in Operating Activities	**(378,006)**	(955,802)
Cash Flows From Investing Activities:		
Cash purchases of property and equipment	(123,356)	(245,742)
Cash payments on Patents and Trademarks	(178,352)	(302,696)
Sale of Product Lines	**-.**	800,000
Cash purchases of short-term investments	(50,000)	(690,000)
Maturity of short-term investments	**440,000**	700,000
Net Cash Provided by Investing Activities	**88,292**	261,562
Cash Flows From Financing Activities:		
Repayment of long-term borrowings	(51,299)	(47,915)
Net Cash Used in Financing Activities	(51,299)	(47,915)
Net Decrease in Cash and Cash Equivalents:	**(341,013)**	(742,155)
Cash and Cash Equivalents at Beginning of Period	**843,610**	1,585,765
Cash and Cash Equivalents at End of Period	$**502,597**	$843,610

Cash paid during the year for:		
Interest	$**197,210**	$202,411
Income taxes	$**4,160**	$77,080

See notes to the consolidated financial statements

F-3

Notes To Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hydromer, Inc. & Subsidiary (the Company) is a polymer research and development company based in Branchburg, New Jersey. The Company develops polymer complexes for commercial markets in both the United States and abroad for the medical, cosmetics, animal health and industrial fields. The Company also offers R&D, engineering and contract coating services (through its wholly owned subsidiary, Biosearch Medical Products, Inc. (Biosearch)) in its array of capabilities. The Company obtains patent rights on certain products from which royalty revenues can be received. Biosearch, a U.S. based corporation, was also previously a medical device manufacturer for various medical products companies. During the 2010 fiscal year, the Company sold off the remaining part of its OEM medical device business (see Footnote 14).

Principles of Consolidation

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

Cash and Cash Equivalents

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

Short-Term Investments

Short-term investments consist of investments other than cash and cash equivalents with original maturities of greater than three months and less than one year. Short-term investments as of June 30, 2011 was $50,000, comprising of a bank CD with an interest rate of 0.345%. Short term investments as of June 30, 2010 were $440,000.

Accounts Receivables

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

Fair Value Measurements

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

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities

Inventories

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

Depreciation

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

Patents

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

Long-Lived Assets

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

Revenue Recognition

Revenues from product and services sales are recognized at the time of shipment or services rendered provided that collection of the resulting receivable is probable. Revenues from royalties are recognized upon the sale of certain products by licensees with whom the Company has licensing agreements. Contract Revenues, which includes payments from Stand Still, Supply or Support agreements that are typically based on time frames, are recognized in the periods to which it pertains. Deferred revenues are recorded when agreements call for payment ahead of when the amounts are earned.

Shipping and Handling Charges

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

Advertising

Advertising costs are expensed as incurred except for tangible assets, such as printed advertising materials, which are expensed as consumed. Advertising expense was $110,745 and $47,340 for the years ended June 30, 2011 and 2010, respectively.

Research and Development

Research and development costs, primarily employee salaries and benefits, are charged to operations when incurred and are included in Operating Expenses. The amounts charged to expense for the years ended June 30, 2011 and 2010 were $654,952 and $837,351, respectively.

Stock Based Compensation

The Company accounts for stock and stock options issued for services and compensation to employees under ASC 718-10. For non-employees, the fair market value of the Company's stock on the date of stock issuance or option/grant is used. The Company determines the fair market value of the options issued under the Black-Scholes Pricing Model. Under the provisions of ASC 718-10, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). There were no such stock option grants issued during the years ended June 30, 2011 and June 30, 2010.

Foreign Currency Translation

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

Comprehensive Income (Loss)

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

As of June 30, 2011, there was no comprehensive income (loss).

Income Taxes

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

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

Earnings Per Share

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

Use of Estimates

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

Reclassification

Certain amounts previously reported may have been reclassified to conform to the 2011 presentation.

2. CONCENTRATION OF CREDIT AND BUSINESS RISK

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

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

There were no significant customers for the years ended June 30, 2010 and 2011.

3. FAIR VALUE

In accordance with ASC 820-10, the following table represents the Company s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and June 30, 2010, respectively:

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

as of June 30, 2010	Level 1	Level 2	Level 3	Total
Assets				

Investments	$ 440,000	-	-	$ 440,000
Total Assets	$ 440,000	-	-	$ 440,000
Liabilities - n/a	-	-	-	-

Some of the Company s financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature, such as cash and cash equivalents, receivables and payables. The carrying amount of the mortgage is consistent with the terms available in the market for instruments with similar risk.

4. INVENTORY

Inventory consists of:

	June 30,	
	2011	2010
Finished goods	$197,389	$98,690
Work in process	32,116	202
Raw materials	215,099	149,677
	$444,604	$248,569

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30, 2011	2010
Land	$**472,410**	$472,410
Building	**2,323,016**	2,307,449
Machinery and equipment	**2,250,263**	2,164,899
Equipment under capital leases	**86,729**	86,729
Furniture and fixtures	**209,818**	204,027
	5,342,236	5,235,514
Less: Accumulate depreciation and amortization	**(2,441,596)**	(2,220,742)
Accumulated depreciation on capital leases	**(36,728)**	(26,236)
Property and Equipment, net	$**2,863,912**	$2,988,536

Depreciation expense, including that on assets under capitalized leases, charged to operations, was $231,347 and $225,051 for the years ended June 30, 2011 and 2010, respectively. During the year ended June 30, 2010, $1,743,800 in fully depreciated equipment and fixtures were written-off and approximately $567,000 in equipment (approximately $413,000 in accumulated depreciation) was sold as part of the product lines sold to Forefront Medical Technology (PTE) Ltd. (see Footnote 14).

6. INTANGIBLE ASSETS

Intangible Assets, including prepaid Patent Costs included in Prepaid Expenses of $82,434 and $83,495 as of June 30, 2011 and 2010, respectively, are comprised of the following:

	June 30, 2011	2010
Patents	$ **1,440,365**	$1,403,865
Trademarks	**103,383**	66,218
Less: Accumulated amortization	(641,083)	(546,866)
Intangible Assets, net	$ **902,665**	$923,217

Future amortization of Intangible Assets, as of June 30, 2011, are as follows:

Year ending June 30,	
2012	$156,276
2013	103,209
2014	96,600
2015	94,051
2016	89,773
Thereafter	362,756

	$902,665

Amortization expense for the years ended June 30, 2011 and 2010 were $200,446 and $205,937, respectively.

7. LEASES

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

Future payments under these capital lease arrangements, which includes $3,667 in finance charges, are as follows:

Year ending June 30,	
2012	$20,506
2013	17,246
	$37,752

8. LONG-TERM DEBT

As of June 30, 2011, the Company's facility is financed by a twenty-five year mortgage note bearing a five year fixed interest rate of 6.75%, and then reset every five years at 2.75% over the then New York Federal Home Loan Bank 5/20 Amortizing Advance Rate. The mortgage is secured by the real estate and improvements, and all rents from leases subsequently entered into, amortized with monthly payments. As of June 30, 2011, the book value of the real estate and improvements was $2,224,061.

As a result of the net losses for the years ended June 30, 2010 and June 30, 2011, the Company did not meet certain financial covenants required under the loan document. Loan modifications and covenant waivers were issued by the lender during each year. On October 13, 2011, the Company and the bank entered into a loan modification agreement pursuant to which the bank waived the June 30, 2011 covenants and defaults in exchange for the Company providing its accounts receivable and inventory as collateral. Although waivers/modifications were granted by the lender, there is no certainty that future waivers/modifications would be granted.

Long-term debt is comprised of the following:

	June 30, 2011	2010
Mortgage note	$ **2,766,537**	$2,817,836
Less: Current Maturities	(51,720)	(48,800)
Long-term Debt, Net of Current Maturities	**$2,714,817**	$2,769,036

Maturities of the long-term debt are as follows:

Year ending June 30,	As of June 30, 20111
2012	$51,720
2013	55,899
2014	59,847
2015	64,074
2016	68,119
Thereafter	2,466,878
	$2,766,537

9. INCOME TAXES

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

	Federal	State	Total
Year Ended June 30, 2011			
Current	$ -	$**4,160**	$**4,160**
Deferred	(314,045)	(17,177)	(331,222)
	$ (314,045)	$ (13,017)	$ (327,062)
Year Ended June 30, 2010			
Current	$ -	$4,160	$4,160
Deferred	(355,096)	(110,702)	(465,798)
	$ (355,096)	$ (106,542)	$ (461,638)

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

	June 30, 2011	2010
Deferred Tax Asset		
Net Operating Losses	$**891,783**	$514,684
Adjustment of Goodwill	**196,069**	196,069
Research & Development Credits	**618,302**	597,261
Valuation Allowance	(387,350)	(296,069)
Total Deferred Tax Assets	**1,318,804**	1,011,945
Deferred Tax Liability		
Depreciation	(294,012)	(318,375)
Total Deferred Tax Liability	$ (294,012)	$ (318,375)

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

As of June 30, 2011, the Company has net operating loss carry forwards of approximately $1,982,512 and $3,249,692 for Federal and State tax purposes respectively. These net operating loss carry forwards may be used to reduce federal and state taxable income and tax liabilities in future years and expire in various years through June 30, 2031 and June 30, 2018 for Federal and State tax purposes, respectively. In addition, the Company has Research and Development Tax Credits of approximately $368,490 and $249,812 for Federal and State tax purposes, respectively, which expire in various years through June 30, 2031 and June 30, 2018, respectively.

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

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

	June 30,	
	2011	2010
Federal statutory tax rate	(34.0) %	(34.0) %
State income tax - net of federal tax benefit	**(5.2)**	(2.6)
R & D credits	(2.3)	(7.2)
Adjustment in valuation allowances	**8.3**	-
Permanent and other differences	(2.8)	(1.4)
	(36.0) %	(45.2) %

10. STOCK OPTIONS AND AWARDS

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

Open options under this plan awarded to the Board of Directors are as follows:

Issuance Date	Options Issued	Exercise Price	Expiration Date	Options Exercised
Nov 15, 2006	50,000	$1.18	Nov 15, 2011	-

During the 2008 fiscal year, 15,000 fully vested five year options, at a $3.00 exercise price, were granted as part of a Stock Subscription.

There were no stock option issuances during the 2010 or 2011 fiscal years.

A summary of activity under the plan for the years ending June 30, 2010 and 2011 are as follows:

	Common Stock Options Outstanding	Weighted Average Exercise Price
	Shares	
Balance, June 30, 2009	183,000	$ 1.53
Cancelled	(56,000)	2.10
Balance, June 30, 2010	127,000	$ 1.28
Cancelled	(62,000)	0.95
Balance, June 30, 2011	**65,000**	$ 1.60

Following is a summary of the status of options outstanding as of June 30, 2011:

Outstanding Options .			Exercisable Options .	
Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$1.18	50,000	0.4 years	$1.18	50,000	$1.18
$3.00	15,000	1.1 years	$3.00	15,000	$3.00
	65,000	0.6 years	$1.60	65,000	$1.60

As the stock price of the Company's stock on June 30, 2011 was lower than the exercise prices of the outstanding and exercisable options, there was no intrinsic value of the options.

11. RETIREMENT PLAN

The Company sponsors a qualified 401(k) plan covering substantially all full time employees under which eligible employees can defer a portion of their annual compensation. The Company determines annually, the amount of

matching contributions. There were no Company matching contributions made to the plan during the fiscal years ended June 30, 2010 or June 30, 2011.

12. INDUSTRY SEGMENT INFORMATION

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

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

The medical products segment included an OEM product line of bipolar coagulation probes, placement catheters, bilary stents, jejunal and enteral feeding accessories, guidewires, biofeedback devices for fecal and urinary incontinence and other endoscopic accessories. With the exception of the biofeedback devices, all the medical device product lines were sold in fiscal 2009 and 2010. Also remaining in this segment are contract coating services and engineering equipment sales and services.

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

The Company operates globally in its segments with several large customers that are important to their operating results. No single customer accounted for more than 10% of the polymer research segment sales for the 2010 and 2011 fiscal years. For the medical products segment, the top three customers accounted for 51% and 87% of that segment's 2011 and 2010 sales, respectively.

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

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

	Polymer Research	Medical Products	Corporate Overhead	Total
Year Ended June 30, 2011				
Revenue	$ **4,225,184**	$ **1,289,831**		$ **5,515,015**
Expenses	(3,627,262)	(1,171,504)	$ (1,624,609)	(6,423,375)
Earnings (Loss) before Income Taxes	**$ 597,922**	**$ 118,327**	**$ (1,624,609)**	**$ (908,360)**
Year Ended June 30, 2010				
Revenue	$ 4,136,010	$ 2,064,494		$ 6,200,504
Expenses	(3,738,588)	(1,813,998)	$ (1,668,908)	(7,221,494)
Earnings (Loss) before Income Taxes	$ 397,422	$ 250,496	$ (1,668,908)	$ (1,020,990)

Included under the Medical Products segment was the pre-tax gain from the sale of product lines of $335,629 in fiscal 2010.

Geographic revenues were as follows for the years ended June 30,

	2011	2010
Domestic:	60%	72%
Foreign:	40%	28%

13. EARNINGS PER SHARE

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

	2011	2010
Numerator:		
Net loss	$ (581,298)	$ (559,352)
Denominator:		
Denominator for basic earnings per share		
- weighted average shares outstanding	**4,772,318**	4,772,318
Effect of dilutive securities - Stock Options	-	-

Denominator for dilutive earnings per share under the treasury stock method	**4,772,318**	4,772,318
- weighted average shares outstanding		
Basic Loss per share	$ (0.12)	$ (0.12)
Dilutive Earnings per share	n/a	$ n/a

Common stock equivalents (consisting of 65,000 and 127,000 stock options for the years ended June 30, 2011 and 2010, respectively) were not included in computing diluted earnings per share as their effect would have been anti-dilutive.

14. SALE OF PRODUCT LINES

On November 25, 2009, the Company's wholly owned subsidiary, Biosearch Medical Products, Inc. ("Biosearch") sold its Private Label Jejunostomy Catheter and Nasogastric Feeding Catheter business to Forefront Medical Technology (PTE) Ltd ("Forefront"), a wholly owned subsidiary of Vicplas International Limited – a company registered in the Republic of Singapore, for $800,000 in cash, half received upon closing with the balance received in March 2010.

This sale included inventory and equipment related to that business and also called for the assignment of certain customer supply agreements to Forefront and a three year non-compete provision. A separate supply agreement for Hydromer® hydrophilic coating solution used on those products was also entered between the parties. Biosearch continued manufacturing the products, at an agreed upon transfer price, until Forefront completed the transition in April 2010.

The product lines sold were part of the "Medical Products" segment (see Footnote 12) in which operations and cash flows could not be broken down further. Therefore, along with the continued manufacturing, this transactions did not meet the criteria of discontinued operations under ASC 205-20, *Discontinued Operations*.

The gain on sale of the product lines are reflected separately on the Consolidated Statement of Operations.

15. CONTINGENCIES

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

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

INDEX TO EXHIBITS

3.a Certificate of Incorporation of the Company, as amended to date

3.b By-Laws of the Company, as amended to date

10.a Minutes of Meeting of the Board of Directors of the Company held on March 5, 1981 with respect to stock options granted to Manfred F. Dyck (Incorporated by reference to Exhibit 10.i to the Registration Statement).

10.b Agreement dated August 11, 1981 between Horizon Concepts, Inc., and the Company (Incorporated by reference to Exhibit 10.c to the Registration Statement).

10.c Agreement dated January 27, 1982 between Reliable Pharmaceutical Company, Inc. and the Company (Incorporated by reference to Exhibit 10.d to the Registration Statement).

10.d License Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.g to the Registration Statement).

10.e Management Services Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.h to the Registration Statement).

10.f Amendment dated October 7, 1982 to Agreement dated January 27, 1982 between Reliable Pharmaceutical Company, Inc. and the Company, together with letter dated October 14, 1982 from Reliable Pharmaceutical Company, Inc. to the Company (Incorporated by reference to Exhibit 10.f to the 1983 Annual Report).

10.g Hydromer Coating agreement dated February 11, 1983 between Pacesetter Systems, Inc. and the Company (Incorporated by reference to Exhibit 10.g to the 1983 Annual Report).

10.h Lease Agreement dated April 5, 1983 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.h to the 1983 Annual Report).

10.i License Agreement dated April 25, 1983 between CardioSearch Inc. and the Company (Incorporated by reference to Exhibit 10.i to the 1983 Annual Report).

10.j Trademark License Agreement dated April 25, 1983 between CardioSearch Inc. and the Company (Incorporated by reference to Exhibit 10.j to the 1983 Annual Report).

10.k Agreement dated August 31, 1983 between Becton, Dickinson & Company and the Company (Incorporated by reference to Exhibit 10.l to the 1983 Annual Report).

10.l Current Report on Form 8-K filed May 30, 1986

10.m Hydromer Coating License Agreement dated September 30, 1984 between Axiom Medical, Inc. and the Company (Incorporated by reference to Exhibit 10.m to the 1984 Annual Report).

10.n 1982 Stock Option Plan of the Company (Incorporated by reference to Exhibit 10.m to the 1983 Annual Report).

10.o Amendment dated June 26, 1984 to Agreement dated August 3, 1983 between Becton, Dickinson & Company and the Company (Incorporated by reference to Exhibit 10.o to the 1984 Annual Report).

10.p License Agreement dated July 31, 1984 between Kendall Company and the Company (Incorporated by reference to Exhibit 10.p to the 1984 Annual Report).

10.q License Agreement dated March 1, 1985 between Van-Tec Inc. and the Company and Letter of Amendment thereto dated June 13, 1985 (Incorporated by reference to Exhibit 10.o to the 1985 Annual Report).

10.r Telex dated June 24, 1985 terminating License Agreement with CardioSearch Inc. (Incorporated by reference to Exhibit 10.p to the 1984 Annual Report).

10.s Amendment dated as of December 31, 1984 to Management Services Agreement dated July 14, 1982 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.q to the 1985 Annual Report).

10.t Lease Renewal Agreement dated April 15, 1985 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.r to the 1985 Annual Report).

10.u Lease Agreement dated December 4, 1984 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.s to the 1985 Annual Report).

10.v License Agreement dated April 11, 1986 between Axiom Medical, Inc. and the Company (Incorporated by reference to Exhibit 10.i to the 1986 Annual Report).

10.w License Agreement dated September 13, 1985 between U. S. Viggo and the Company (Incorporated by reference to Exhibit 10.c to the 1986 Annual Report).

10.x License Agreement dated March 27, 1986 between Wilkinson Sword Limited and the Company (Incorporated by reference to Exhibit 10.f of the 1986 Annual Report).

10.y Lease Renewal Agreement dated April 15, 1987 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.y to the 1987 Annual Report).

10.z License Agreement dated April 30, 1986 between HPK International and the Company (Incorporated by reference to Exhibit 10.j to the 1986 Annual Report).

10.aa License Agreement dated August 1, 1986 between Film Specialties, Inc. and the Company (Incorporated by reference to Exhibit 10.aa to the 1987 Annual Report).

10.ab Lease Renewal Agreement dated April 15, 1988 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ab to the 1988 Annual Report).

10.ac License Agreement dated June 30, 1987 between Richards Medical Company and the Company (Incorporated by reference to Exhibit 10.ac to the 1988 Annual Report).

10.ad License Agreement dated December 1, 1987 between Mallinckrodt, Inc. and the Company (Incorporated by reference to Exhibit 10.ad to the 1988 Annual Report).

10.ae Option Agreement dated January 28, 1988 between Cordis Corporation and the Company (Incorporated by reference to Exhibit 10.ae to the 1988 Annual Report).

10.af Lease Agreement dated April 15, 1988 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.ag of the 1988 Annual Report).

10.ag Letters dated June 11, 1987 and September 22, 1987 to U. S. Viggo, Inc. modifying License Agreement dated September 13, 1985, to cover only central venous catheters (Incorporated by reference to Exhibit 10.ag to the 1988 Annual Report).

10.ah Lease Renewal Agreement dated April 15, 1989 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ah to the 1989 Annual Report).

10.ai Amendment dated October 1, 1988 to License Agreement dated September 13, 1985, between U. S. Viggo and the Company (Incorporated by reference to Exhibit 10.ai to the 1989 Annual Report).

10.aj License Agreement dated October 20, 1988 between Cordis Corp. and the Company (Incorporated by reference to Exhibit 10.aj to the 1989 Annual Report).

10.ak License Agreement dated March 31, 1989 between Cathlab Corp. and the Company (Incorporated by reference to Exhibit 10.ak to the 1989 Annual Report).

10.al Amendment dated December 1, 1988 to License Agreement dated August 1, 1986 between Film Specialties, Inc. and the Company (Incorporated by reference to Exhibit 10.al to the 1989 Annual Report).

10.am Finders Agreement dated August 20, 1987 between Phoenix Chemical, Inc. and the Company (Incorporated by reference to Exhibit 10.am to the 1989 Annual Report).

10.an License Agreement dated September 10, 1989 between the Stent Division of Schneider and the Company (Incorporated by reference to Exhibit 10.an to the 1990 Annual Report).

10.ao License Agreement dated March 30, 1990 between Cosmo Ikko Company and the Company (Incorporated by reference to Exhibit 10.ao to the 1990 Annual Report).

10.ap License Agreement dated April 12, 1990 between Interventional Therapeutics, Inc. and the Company and amendment dated May 7, 1990 to the Agreement dated April 12, 1990 between Interventional Therapeutics, Inc. and the Company (Incorporated by reference to Exhibit 10.ap to the 1990 Annual Report).

10.aq Amended License Agreement dated January 1, 1990 between the Wilkinson Sword group of companies and the Company (Incorporated by reference to Exhibit 10.aq the 1990 Annual Report).

10.ar Lease Agreement dated April 15, 1990 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.ar to the 1990 Annual Report).

10.as Amendment to the Agreement dated July 31, 1984 between Kendall Company and the Company (Incorporated by reference to Exhibit 10.as to the 1990 Annual Report).

10.at License Agreement dated January 11, 1991 between Biosearch Medical Products Inc. and the Company (Incorporated by reference to Exhibit 10.at to the 1991 Annual Report).

10.au License Agreement dated May 16, 1991 between I E Sensors and the Company (Incorporated by reference to Exhibit 10.au to the 1991 Annual Report).

10.av Lease Renewal Agreement dated April 15, 1991 between Salem Realty and The Company (Incorporated by reference to Exhibit 10.av to the 1991 Annual Report).

10.aw License Agreement dated July 25, 1991 between Johnson & Johnson Orthopaedics and the Company (Incorporated by reference to Exhibit 10.aw to the 1992 Annual Report).

10.ax License Agreement dated August 19, 1991 between Navarre Laboratories Ltd. and the Company (Incorporated by reference to Exhibit 10.ax to the 1992 Annual Report).

10.ay Amended License Agreement dated September 15, 1991 between Boston Scientific Corp. and the Company (Incorporated by reference to Exhibit 10.ay to the 1992 Annual Report).

10.az Option/License Agreement dated September 23,1991 between Elan Corp. PLC and the Company (Incorporated by reference to Exhibit 10.az to the 1992 Annual Report).

10.ba Lease Agreement dated November 1, 1991 between Morton Street Realty and the Company (Incorporated by reference to Exhibit 10.ba to the 1992 Annual Report).

10.bb License Agreement dated August 17, 1992 between SCIMED Peripheral Interventions, division of SCIMED Life Systems, Inc. and the Company. (Incorporated by reference to Exhibit 10.bb to the 1993 Annual Report).

10.bc License Agreement dated March 9, 1993 between Arrow International, Inc. and the Company. (Incorporated by reference to Exhibit 10.bc to the 1993 Annual Report).

10.bd License Agreement dated April 28, 1993 between St. Jude Medical, Inc. and the Company. (Incorporated by reference to Exhibit 10.bd to the 1993 Annual Report).

10.be License Agreement dated November 11, 1993 between Katoh Hatsujyo Kaisha, Ltd. and the Company. (Incorporated by reference to Exhibit 10.be to the 1994 Annual Report).

10.bf Lease Agreement dated June 9, 1995 between Salem Realty and the Company (Incorporated by reference to Exhibit 10.bf to the 1995 Annual Report).

10.bg Amendment dated September 20, 1995 to License Agreement dated April 28, 1993 between St. Jude Medical, Inc. and the Company. (Incorporated by reference to Exhibit 10.bg to the 1996 Annual Report).

10.bh License Agreement dated April 12, 1990 between Interventional Therapeutics and the Company was terminated effective December 22, 1995. (Incorporated by reference to Exhibit 10.bh to the 1996 Annual Report).

10.bi License Agreement dated May 16, 1991 between I E Sensors and the Company was terminated effective December 31, 1995. (Incorporated by reference to Exhibit 10.bi to the 1996 Annual Report).

10.bj Consented to the assignment of license agreement dated April 28, 1993 between St. Jude Medical, Inc. and the Company to CR Bard dated January 18, 1996. (Incorporated by reference to Exhibit 10.bj to the 1996 Annual Report).

10.bk License Agreement dated April 30, 1986 between HPK International and the Company was terminated effective February 19, 1996. (Incorporated by reference to Exhibit 10.bk to the 1996 Annual Report).

10.bl License Agreement dated June 6, 1996 between Biosearch Medical Products Inc. and the Company. (Incorporated by reference to Exhibit 10.bl to the 1996 Annual Report).

10.bm License Agreement dated August 1, 1996 between Biosearch Medical Products Inc. and the Company.

10.bn Amended License Agreement dated September 4, 1996 between SCIMED (Boston Scientific Corporation) and the Company.

10.bo License Agreement dated January 6, 1997 between Sherwood Davis & Geck and the Company.

10.bp Use permit for certain designated area dated May 4, 1997 between Biosearch Medical Products Inc. and the Company

10.bq Contract of sale between Biosearch Medical Products and the Company for the sale of 35 Industrial Parkway dated 3/31/98

10.br Note and mortgage with PNC Bank dated 6/12/98

10.bs 3 year lease agreement with Biosearch Medical Products dated 6/12/98 for 35 Industrial Parkway

10.bt License of technology, supply and stock purchase agreement with C.R.Bard dated 2/25/99

10.bu Trademark and technology license agreement with AST dated 3/9/99

10.bv License of two gel patents from Ridge Scientific dated 11/1/98

10.bw License and Supply agreement with Gallini SRL dated 6/28/00

10.bx Standstill agreement with license option with IMED Pharma Inc. dated 3/30/00

10.by License of technology with Symbiotech Medical Inc. dated 3/28/00

10.bz License and supply agreement with TP Orthodontics Inc. dated 3/30/00

10.ca License Agreement dated July 1, 2000 between Becton Dickinson and Company, Inc. and the Company.

10.cb License Agreement dated January 1, 2001 between LHS Limited and LHS Holding Limited, English dba KLEENCARE and the Company.

10.cc License Agreement dated April 17, 2001 between Tyco Healthcare Group LP and the Company.

10.cd Construction Contract dated April 19, 2001 between REDCO Engineering & Construction Corp and the Company.

10.ce Service Agreement dated April 23, 2001 between Tyco Healthcare Group LP and the Company.

10.cf Loan Agreement dated June 7, 2001 between New Millenium Bank and the Company.

10.cg By-Laws Articles of Incorporation.

10.ch Loan Agreement dated June 30, 2005 between Wachovia Bank, N.A. and the Company.

10.ci Asset Purchase and Supply Agreement dated February 2009 between Merit Medical Systems, Inc. and the Company

10.cj Asset Transfer Agreement dated November 2009 between Forefront Medical Technology (PTE) Ltd and the Company

24. Power of Attorney (see "Power of Attorney" in the Annual Report on Form 10-K).

31.1 Certification of Manfred F. Dyck, Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).

31.2 Certification of Robert Y. Lee, Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Manfred F. Dyck, Chief Executive Officer of Hydromer, Inc.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Robert Y. Lee, Chief Financial Officer of Hydromer, Inc.

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