HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

2015 Annual Report

Hydromer®

HYDROMER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS and RETAINED EARNINGS (DEFICIT)

	Year Ended June 30, 2015	2014
Revenues		
Sales of Products	**$ 3,302,112**	$ 3,451,124
Service Revenues	**1,472,217**	1,328,157
Royalties and contract revenues	**1,055,761**	1,235,777
Total Revenues	**5,830,090**	6,015,058
Expenses		
Cost of Sales	**1,620,440**	1,701,949
Operating Expenses	**4,014,707**	3,996,737
Other Expenses	**770**	148,193
Provision for Income Taxes	**41,783**	51,187
Total Expenses	**5,677,700**	5,898,066
Net Income	**$ 152,390**	$ 116,992
Earnings Per Common Share	**$ 0.03**	$ 0.02
Weighted Average Number of Common Shares Outstanding*	**4,772,318**	4,772,318

*Diluted EPS and Basic EPS are the same as the Company does not have any Common Stock Equivalents (e.g. Options).

Accumulated Deficit, Beginning of Year	$ (1,416,701)	$ (1,533,693)
Net Income	**152,390**	116,992
Accumulated Deficit, End of Year	$ (1,264,311)	$ (1,416,701)

See accompanying notes.

The accompanying notes are an integral part of these consolidated financial statements.

This Annual Report may contain forward-looking statements. 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 or the 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 Annual Report 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.

HYDROMER, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, **2015**	June 30, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 464,699**	$ 545,686
Trade Receivables less allowance for doubtful accounts of $29,311 and $33,605 as of June 30, 2015 and June 30, 2014, respectively	**1,113,578**	880,700
Inventory	**450,764**	365,024
Prepaid Assets	**159,357**	150,529
Deferred tax asset, non-current	**68,000**	68,634
Other	**3,458**	10,651
Total Current Assets	**2,259,856**	2,021,224
Property and Equipment, net	**2,349,379**	2,431,234
Deferred tax asset, non-current	**1,036,266**	1,100,613
Intangible assets, net	**747,109**	804,149
Other	**76,907**	79,295
Total Assets	**$ 6,469,517**	$ 6,436,515
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts Payable	**$ 236,113**	$ 237,118
Accrued Expenses	**217,879**	234,833
Current portion of deferred revenue	**137,243**	93,599
Current portion of mortgage payable	**87,136**	82,042
Total Current Liabilities	**678,371**	647,592
Deferred Tax Liability	**278,182**	303,130
Long term portion of deferred revenue	**15,897**	54,733
Long term portion of mortgage payable	**2,412,553**	2,498,936
Total Liabilities	**3,385,003**	3,504,391
Contingencies	-	-
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, 2015 and June 30, 2014	**3,721,815**	3,721,815
Contributed capital	**633,150**	633,150
Accumulated deficit	**(1,264,311)**	(1,416,701)
Treasury stock, 10,917 common shares at cost	**(6,140)**	(6,140)
Total Stockholders' Equity	**3,084,514**	2,932,124
Total Liabilities and Stockholders' Equity	**$ 6,469,517**	$ 6,436,515

See accompanying notes.

HYDROMER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2015	2014
Cash Flows from Operating Activities:		
Net Income	$ 152,390	$ 116,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	405,923	422,807
Deferred income taxes	40,033	47,687
Changes in Assets and Liabilities:		
Trade receivables	(232,878)	130,732
Inventory	(85,740)	26,117
Prepaid expenses	(23,399)	6,492
Other assets	9,581	5,843
Accounts payable and accrued liabilities	(15,010)	(172,577)
Deferred income	4,808	(74,009)
Income taxes payable	(2,500)	(3,500)
Net Cash Provided by Operating Activities	253,208	506,584
Cash Flows from Investing Activities:		
Cash purchases of property and equipment	(69,634)	(57,772)
Cash payments on patents and trademarks	(183,272)	(289,684)
Net Cash Used in Investing Activities	(252,906)	(347,456)
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	(81,289)	(72,396)
Net Cash Used in Financing Activities	(81,289)	(72,396)
Net (Decrease) Increase in Cash and Cash equivalents	(80,987)	86,732
Cash and Cash equivalents, Beginning of Period	545,686	458,954
Cash and Cash equivalents, End of Period	$ 464,699	$ 545,686
Cash Paid during the year for:		
Interest	$ 131,904	$ 151,102
Income taxes	$ 3,000	$ 3,500

See accompanying notes.

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. Also in its array of capabilities, the Company offers R&D services and through its wholly owned subsidiary, Biosearch Medical Products, Inc. ("Biosearch"), engineering services and contract coating services. The Company has patent rights on certain products from which royalty revenues can be received.

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.

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, and 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.

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. There were no financial assets and liabilities requiring fair value reporting as of June 30, 2014 or 2015.

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 when services are 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. In multiple element arrangements, revenue is allocated to each separate unit of accounting and each deliverable in an arrangement is evaluated to determine whether it represents separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there is no general right of return for the delivered elements. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit of accounting. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price.

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 $47,910 and $69,480 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 were $737,313 and $571,446, respectively.

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, 2015, the translation adjustment was de minimus thus the Company did not report any comprehensive income.

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.

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.

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, 2014 and 2015. The accounts receivable balance of one customer as of June 30, 2014 represented 12% of the total, of which 98% was collected by mid-August 2014. The June 30, 2015 accounts receivable balance included balances from three customers which represented 45% of the total. 61% of that balance was collected by mid-August 2015.

3. INVENTORY

Inventory consists of:

	June 30,	
	2015	2014
Finished goods	**$ 200,532**	$ 144,190
Work in process	**25,414**	19,548
Raw materials	**224,818**	201,286
	$ 450,764	$ 365,024

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30,	
	2015	2014
Land	**$ 472,410**	$ 472,410
Building	**2,383,793**	2,348,387
Machinery and equipment	**2,499,783**	2,466,004
Furniture and fixtures	**211,627**	211,627
	5,567,613	5,498,428
Less: Accumulated depreciation and amortization	**(3,218,234)**	(3,067,194)
Property and Equipment, net	**$ 2,349,379**	$ 2,431,234

Depreciation expense was $151,040 and $169,923 for the years ended June 30, 2015 and 2014, respectively.

5. INTANGIBLE ASSETS

Intangible Assets, including prepaid Patent Costs included in Prepaid Expenses of $67,033 and $81,604 as of June 30, 2015 and 2014, respectively, are comprised of the following:

	June 30, 2015	June 30, 2014
Patents	**$ 1,773,284**	$ 1,725,133
Trademarks	**113,318**	109,841
Less: Accumulated amortization	**(1,072,460)**	(949,221)
Intangible Assets, net	**$ 814,142**	$ 885,753

Future amortization of Intangible Assets, as of June 30, 2015, are as follows:

Year ending June 30,	
2016	$ 191,142
2017	115,407
2018	99,286
2019	70,591
2020	59,865
Thereafter	277,851
	$ 814,142

Amortization expense for the years ended June 30, 2015 and 2014 were $254,883 and $252,884, respectively.

6. LONG-TERM DEBT

As of June 30, 2015, the Company's facility is financed by a twenty-five year mortgage note bearing an interest rate of 5.00%, fixed until 2018 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, accounts receivables, inventory and all rents from leases subsequently entered into, amortized with monthly payments. As of June 30, 2015, the book value of the real estate and improvements was $2,045,501.

Long-term debt is comprised of the following:

	June 30, 2015	June 30, 2014
Mortgage note	**$ 2,499,689**	$ 2,580,978
Less: Current Maturities	**(87,136)**	(82,042)
Long-term Debt, Net of Current Maturities	**$ 2,412,553**	$ 2,498,936

Maturities of the long-term debt are as follows:

Year ending June 30,	
2016	$ 87,136
2017	91,447
2018	95,978
2019	100,741
2020	105,748
Thereafter	2,018,639
	$ 2,499,689

7. INCOME TAXES

The income tax provision is comprised of the following:

	Federal	State	Total
Year Ended June 30, 2015			
Current	**$ -**	**$ 1,750**	**$ 1,750**
Deferred	**39,746**	**287**	**40,033**
	$ 39,746	**$ 2,037**	**$ 41,783**
Year Ended June 30, 2014			
Current	$ -	$ 3,500	$ 3,500
Deferred	46,750	937	47,687
	$ 46,750	$ 4,437	$ 51,187

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

	June 30, 2015	June 30, 2014
Deferred Tax Asset		
Net Operating Losses	**$ 665,169**	$ 762,198
Adjustment of Goodwill	**196,069**	196,069
Research & Development Credits	**542,662**	510,614
Valuation Allowance	**(299,634)**	(299,634)
Total Deferred Tax Assets	**1,104,266**	1,169,247
Deferred Tax Liability		
Depreciation	**(278,182)**	(303,130)
Total Deferred Tax Liability	**$ (278,182)**	$ (303,130)

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, 2015, the Company has net operating loss carry forwards of approximately $1,611,376 and $1,750,764 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, 2032 and June 30, 2019 for Federal and State tax purposes, respectively. In addition, the Company has Research and Development Tax Credits of approximately $417,784 and $124,878 for Federal and State tax purposes, respectively, which expire in various years through June 30, 2034 and June 30, 2021, 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, 2015	June 30, 2014
Federal statutory tax rate	**34.0 %**	34.0 %
State income tax - net of federal tax benefit	**1.1**	2.7
R & D credits	**(16.5)**	(9.9)
Adjustment in valuation allowances	**-**	6.5
Permanent and other differences	**2.9**	(2.9)
	21.5 %	30.4 %

8. 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.

There were no stock option issuances during the 2014 or 2015 fiscal years as Directors waived their options earned in lieu of cash payments.

As of June 30, 2014 and 2015, there were no common stock options outstanding.

9. 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, 2014 or June 30, 2015.

10. 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®, Capricoat™, Carvanella™, Dermaseal®, Dragonhyde®, HerbaDip™, Hydromer® Anti-Fog/Condensation Control Coatings, Hydromer® Lubricious Coatings, Rhinohyde™, 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 includes the biofeedback medical device, 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 2014 and 2015 fiscal years. For the medical products segment, three customers accounted for 67% and 84% of that segment's 2014 and 2015 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, 2015				
Revenue	**$ 4,492,992**	**$ 1,337,098**		**$ 5,830,090**
Expenses	**(2,782,421)**	**(1,256,786)**	**$ (1,596,710)**	**(5,635,917)**
Earnings (Loss) before Income Taxes	**$ 1,710,571**	**$ 80,312**	**$ (1,596,710)**	**$ 194,173**
Year Ended June 30, 2014				
Revenue	$ 4,817,188	$ 1,197,870		$ 6,015,058
Expenses	(3,230,560)	(1,104,253)	$ (1,512,066)	(5,846,879)
Earnings (Loss) before Income Taxes	$ 1,586,628	$ 93,617	$ (1,512,066)	$ 168,179

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

	2015	2014
Domestic	**71%**	69%
Foreign	**29%**	31%

Hydromer, Inc.
Notes to the Consolidated Financial Statements

11. EARNINGS PER SHARE

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

	2015	2014
Numerator:		
Net income	**$ 152,390**	$ 116,992
Denominator:		
Denominator for earnings per share - weighted average shares outstanding	**4,772,318**	4,772,318
Earnings per share	**$ 0.03**	$ 0.02

There were no common stock equivalents (e.g. stock options) outstanding as of June 30, 2014 or 2015.

12. 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.

13. RELATED PARTY TRANSACTIONS

The son of the Chairman of the Board, CEO and President provides consulting services as an independent contractor to the Company. The consulting services agreement provides for monthly payments under a month to month contract, initially at $3,000 per month to the now current $4,500 per month. Fees paid for consulting services for the years ended June 30, 2015 and 2014 were $36,000 and $36,000, respectively.

14. SUBSEQUENT EVENTS

The Company evaluated the events and transactions subsequent to its June 30, 2015 balance sheet date and, in accordance with FASB ASC 855-10-50, *Subsequent Events*, determined there were no significant events to report through September 30, 2015 which is the date the financial statements were available to be issued.

MANAGEMENT'S DISCUSSION AND ANALYSISOF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The below discussion analyzes major factors and trends regarding the results of operations and the financial condition of the Company as of June 30, 2015, 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, 2015 were $5,830,090 as compared to $6,015,058 for the same period last year, a decrease of $184,968 (3.1%).

Product sales and services revenues were $4,774,329 for the 2015 fiscal year, essentially flat against the prior fiscal year's $4,779,281 (a decrease of $4,952 or 0.1%).

License, royalties and contract payments were $1,055,761 in fiscal 2015, compared to $1,235,777 the year before; $180,016 or 14.6% lower.

Management Comment: Product sales for the 2015 fiscal year ended June 30, 2015 were $3,302,112 as compared with the 2014 fiscal year amount of $3,451,124, a decrease of $149,012. The 2014 fiscal year product sales included $186,714 in periodic private label T-HEXX DRY external teat sealant sales, all occurring in the second half of that fiscal year. Due to the timing of the 2014 purchases, the 2015 order came late in the fiscal year and as a result of raw material delays and toll manufacturer scheduling, it was not fulfilled by the close of the 2015 fiscal year. Along with subsequent new orders, an aggregate of $166,320 in private label sales is expected to be filled during the first half of the 2016 fiscal year. In addition, offsetting each other was the higher demand for the T-HEXX Animal Health Viscosity Modifier products domestically in the United States met by lower International demand of the T-HEXX product line due to the weakening of the Euro and export restrictions into the Russian Federation.

Despite an expectation of a decline in Contract Coating Services revenues, such revenues for the twelve months ended June 30, 2015 were $1,472,217 as compared with Service Revenues of $1,328,157 the fiscal year before. (The fiscal 2014 service revenues included $110,000 from a R&D project.) Despite the expected decline, from the conversion of customers to product sales and license/contract payments customers, strong demand from the remaining customers yielded a 20.9% growth to our service revenues.

Classified as Royalty and Contract revenues are royalties received and the periodic recurring payments from license, stand-still and other agreements other than for product and services, including revenues from support and supply agreements which avail our customers continued technical support and/or guaranteed access to our proprietary coatings. Some of the royalties and support fees are based on the net sales of the final item (to which the Hydromer technology is applied) and are subject to the reporting of our customers. For the 2015 fiscal year ended June 30, 2015, license, royalties and contract payments were lower as a result of events during the 2014 fiscal year: the cancellation of an agreement ($70,000 impact when comparing the two years) and an inventory build up (against a royalty bearing agreement) by our customer in anticipation of a subsequent product launch. These 2014 events resulted in a higher license, royalties and contract line that year when compared to the 2015 fiscal year.

Total Expenses for the year ended June 30, 2015 were $5,677,700, $220,366 (3.7%) lower than the 2014 fiscal year results of $5,898,066.

Cost of Goods Sold was $1,620,440 for fiscal 2015 as compared to $1,701,949 for fiscal 2014. Operating Expenses were $4,014,707and $3,996,737, for the years ended June 30, 2015 and 2014, respectively. Other Expenses added $770 to expenses for fiscal 2015 as compared to $148,193 for fiscal 2014. The Income Tax Provisions for fiscal 2015 and 2014 were $41,783 and $51,187, respectively.

Management Comment: The Company received a $224,363 Small Business Innovation Research ("SBIR") grant to develop an antimicrobial foley catheter for the National Institutes of Health of which $112,341 was received/reimbursed during the fiscal year offsetting/reducing our expenses. The balance is expected during the 2016 fiscal year with a Phase II aspect of the project for additional work possible. Further reducing our fiscal 2015 expenses was a $135,000 litigation settlement that provided for a recovery against the $180,000 bad debt write-off the previous fiscal year.

The Cost of Goods Sold of $1,620,440 for the fiscal 2015 year was $81,509 (4.8%) lower than the $1,701,949 the preceding year, due to the lower product sales. Operating Expenses were up by $17,970 (0.4%) from fiscal 2014 to fiscal 2015 due to the increase in Research & Development personnel offset by the $180,000 receivable write-off in fiscal 2014 and the 2015 SBIR grant. Other Expenses includes mortgage interest, and, for fiscal 2015, is reduced by the $135,00 litigation settlement received. The Income Tax Provision for the 2015 fiscal year of $41,783, is lower than the preceding year's $51,187 due to tax benefits recognized from Research and Development tax credits.

Included in the current period's Operating Expenses are “Reinvestment” expenses, costs associated more towards future growth and benefits, from new product creation to the protection of the development (patents and trademarks). Such expenses totaling $920,585 for fiscal 2015, comprised of Research & Development expenditures (mostly salaries and benefits) and the funding towards the patent and trademark estate, representing 22.9% of the Company’s Operating Expenses. This compares against the $861,130 (21.5% of the Operating Expenses) for the year ended June 30, 2014, higher due to the additional R&D staffing as offset by reducing patent expenditures.

Net Income of $152,390 ($0.03 per share) is reported for the 2015 fiscal year compared with Net Income of $116,992 ($0.02 per share) for the 2014 fiscal year.

Management Comment: The $135,000 litigation settlement and $112,341 SBIR grant during the 2015 fiscal year covered the lower revenues and higher personnel costs. We expect through organic growth of our existing business and of added revenues from new product launches to increase revenues to maintain or increase profitability going forward.

Liquidity and Capital Resources

Working Capital as of June 30, 2015 was $1,581,485 compared against $1,373,632 the prior year or an improvement of $207,853.

The Cash Provided by Operating Activities was $253,208 which includes $405,923 from the non-cash depreciation and amortization expense but an increase of $232,878 to the accounts receivable. The cash used for Investing Activities (for the purchase of property and equipment and payments to the patent estate and trademarks) totaled $252,906. The repayment of the Company’s mortgage utilized $81,289 for principal payments towards debt reduction.

Management Comment: For the year ended June 30, 2015, the Company has an EBITDA (Earnings before Interest, Income Taxes, Depreciation and Amortization) of $733,808 (12.6% of Total Revenues). Lower revenues, along with an increased R&D staffing, impacted the ability of higher earnings. The EBITDA, at least, remains consistent with the prior year's $742,237 (12.3% of 2014's Total Revenues).

ACCOUNTANTS + ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Hydromer, Inc.

We have audited the accompanying financial statements of Hydromer, Inc., which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hydromer, Inc. as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
September 30, 2015