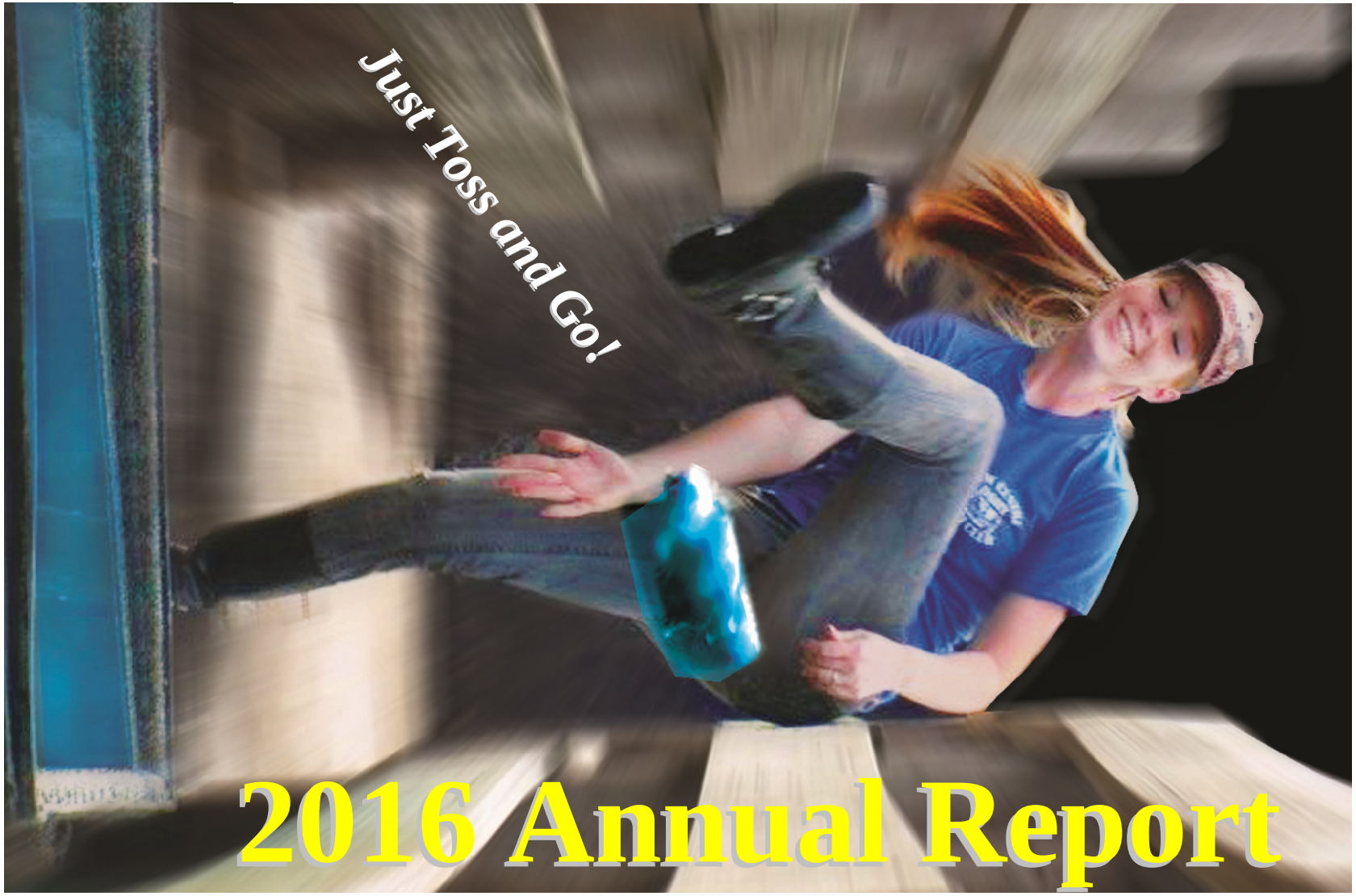
Dragonhyde® Dust

DISSOLVABLE HOOF BATH POWDER

Free of heavy metals. Contains no harsh chemicals.

Introduced in 2012. A 1 pound pouch for a 50 gallon hoof bath.

Hydromer®



2016 Annual Report

COMPANY PROFILE

Founded in 1980, Hydromer is an innovative technology-focused ISO 9001:2015 company engaged in the business of inventing, developing, patenting, licensing, manufacturing and selling hydrophilic polymer based products for commercial markets. Hydromer also provides highly specialized medical coating services to industry through its FDA registered and ISO 13485:2003 certified Biosearch Medical Products subsidiary.

The goal of Hydromer is to be the leading provider of hydrophilic surface modifications and specialty hydrophilic polymers to industry. While maintaining its industry leadership position in permanent lubricious coatings for medical devices, Hydromer constantly strives to create new, value added technologies and to build upon its current technologies – successfully expanding its technology and product base to include drug delivery and infection resistant coatings, anti-fog and condensation control coatings for optical plastics and packaging, water resistant film formers for cosmetics, pharmaceutical and animal health products, unique hydrogels for medical, bio-surgical and cosmetic applications, and barrier films for the protection of skin from allergens.

CHAIRMAN'S MESSAGE

Dear Shareholders,

Following years of respectable results (net income of $116,992 on $6,015,058 of revenues or $0.02 per share for our fiscal year ended June 30, 2014 and net profits of $152,390 on $5,830,090 in revenues, or $0.03 per share for our fiscal year ended June 30, 2015), we faced some challenges this past year, reporting a net loss of $168,050 on revenues of $5,742,821 or a loss of $0.04 per share. During our past fiscal year ended June 30, 2016, we faced lower revenues as stiffer regulatory requirements caused significant delays in new product launches. However, we expect a large number of product introduction to happen in 2017, specifically in the area of material coating technology where we are preparing to establish a brand new technology base.

A prior significant product introduction in our industrial section (Anti-fog coating) is now, post June 30, 2016, beginning to show sales increases. In addition, since we desired to obtain ISO certification, we had to increase our Quality Assurance staffing which increased our costs. As of May 16, 2016, Hydromer, Inc obtained ISO 9001:2015 certification. However, this came while product sales and revenues from royalties and contract revenues together grew only slightly (0.4%), but as contract coating services revenues fell $106,756 or 7.3%. (Fiscal 2015 included an inventory build up from a customer not mirrored this fiscal year.) Maintaining the same medical benefits for employees also added to our cost structure as did a higher Cost of Sales from selling more lower-margin products this fiscal year.

There were other factors that impacted our 2016 fiscal results. The National Institutes of Health antimicrobial foley SBIR (Small Business Innovation Research) catheter grant (2nd phase) has yet to be granted. Had that been and we were able to deliver in full during the 2016 fiscal year, we could have reported net profits from that alone.

We are currently exploring a variety of strategic alliances, but we must assure that new directions are supported with clear understanding of the possible significant ramifications. In other words, this requires consulting with outside specialists in taxation, regulations, etc. absorbing management time and cost.

Our R&D team has provided the foundation of our future, and continues to do so. Our R&D expenditures for fiscal 2016 was approximately $660,000. (Capitalizing these costs would have also yielded net profit results.) We are not operating only for the now, but for the long-term. Such strategy occasionally yields the fluctuating results that we see.

Respectfully,

Manfred F. Dyck
Chairman of the Board, CEO & President

HYDROMER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS and RETAINED EARNINGS (DEFICIT)

	Year Ended June 30, 2016	2015
Revenues		
Sales of Products	**$ 3,323,100**	$ 3,302,112
Service Revenues	**1,365,461**	1,472,217
Royalties and contract revenues	**1,054,260**	1,055,761
Total Revenues	**5,742,821**	5,830,090
Expenses		
Cost of Sales	**1,788,476**	1,620,440
Operating Expenses	**4,209,842**	4,014,707
Other Expenses	**125,229**	770
(Benefit) Provision for Income Taxes	**(212,676)**	41,783
Total Expenses	**5,910,871**	5,677,700
Net (Loss) Income	**$ (168,050)**	$ 152,390
(Loss) Earnings Per Common Share	**$ (0.04)**	$ 0.03
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	$ (1,264,311)	$ (1,416,701)
Net (Loss) Income	**(168,050)**	152,390
Accumulated Deficit, End of Year	$ (1,432,361)	$ (1,264,311)

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, 2016	June 30, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 330,165	$ 464,699
Trade Receivables less allowance for doubtful accounts of $12,039 as of June 30, 2016 and $33,605 as of June 30, 2015	936,519	1,113,578
Inventory	506,900	450,764
Prepaid Assets	188,661	159,357
Deferred tax asset	72,747	68,000
Other	3,550	3,458
Total Current Assets	2,038,542	2,259,856
Property and Equipment, net	2,271,610	2,349,379
Deferred tax asset, non-current	1,227,341	1,036,266
Intangible assets, net	678,378	747,109
Other	70,980	76,907
Total Assets	$ 6,286,851	$ 6,469,517
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 412,705	$ 236,113
Accrued Expenses	233,087	217,879
Current portion of deferred revenue	30,527	137,243
Current portion of mortgage payable	91,447	87,136
Total Current Liabilities	767,766	678,371
Deferred Tax Liability	258,328	278,182
Long term portion of deferred revenue	21,528	15,897
Long term portion of mortgage payable	2,322,765	2,412,553
Total Liabilities	3,370,387	3,385,003
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, 2016 and June 30, 2015	3,721,815	3,721,815
Contributed capital	633,150	633,150
Accumulated deficit	(1,432,361)	(1,264,311)
Treasury stock, 10,917 common shares at cost	(6,140)	(6,140)
Total Stockholders' Equity	2,916,464	3,084,514
Total Liabilities and Stockholders' Equity	$ 6,286,851	$ 6,469,517

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

HYDROMER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2016	2015
Cash Flows from Operating Activities:		
Net (Loss) Income	$ (168,050)	$ 152,390
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and Amortization	386,142	405,923
Deferred income taxes	(215,676)	40,033
Changes in Assets and Liabilities:		
Trade receivables	177,059	(232,878)
Inventory	(56,136)	(85,740)
Prepaid expenses	(25,552)	(23,399)
Other assets	5,835	9,581
Accounts payable and accrued liabilities	191,800	(17,510)
Deferred revenue	(101,085)	4,808
Net Cash Provided by Operating Activities	194,337	253,208
Cash Flows from Investing Activities:		
Cash purchases of property and equipment	(65,300)	(69,634)
Cash payments on patents and trademarks	(178,094)	(183,272)
Net Cash Used in Investing Activities	(243,394)	(252,906)
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	(85,477)	(81,289)
Net Cash Used in Financing Activities	(85,477)	(81,289)
Net Decrease in Cash and Cash equivalents	(134,534)	(80,987)
Cash and Cash equivalents, Beginning of Period	464,699	545,686
Cash and Cash equivalents, End of Period	$ 330,165	$ 464,699
Cash Paid during the year for:		
Interest	$ 128,559	$ 131,904
Income taxes	$ 3,000	$ 3,000

The accompanying notes are an integral part of these 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. 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. As of June 30, 2016 and 2015, there were no cash equivalents.

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, 2015 or 2016.

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 $40,673 and $47,910 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 were $663,432 and $737,313, 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 Statement of 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, 2016, 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.

Two customers accounted for 21% of the fiscal 2016 sales. There were no significant customers for the year ended June 30, 2015. The accounts receivable balance of one customer as of June 30, 2016 represented 10% of the total. This was collected by the end of August 2016. The June 30, 2015 accounts receivable balance included balances from three customers which represented 45% of the total.

3. INVENTORY

Inventory consists of:

	June 30,	
	2016	2015
Finished goods	**$ 101,848**	$ 200,532
Work in process	**88,081**	25,414
Raw materials	**316,971**	224,818
	$ 506,900	$ 450,764

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30,	
	2016	2015
Land	**$ 472,410**	$ 472,410
Building	**2,393,317**	2,383,793
Machinery and equipment	**2,555,559**	2,499,783
Furniture and fixtures	**211,627**	211,627
	5,632,913	5,567,613
Less: Accumulated depreciation and amortization	**(3,361,303)**	(3,218,234)
Property and Equipment, net	**$ 2,271,610**	$ 2,349,379

Depreciation expense was $143,069 and $151,040 for the years ended June 30, 2016 and 2015, respectively.

5. INTANGIBLE ASSETS

Intangible Assets, including prepaid Patent Costs included in Prepaid Expenses of $70,785 and $67,033 as of June 30, 2016 and 2015, respectively, are comprised of the following:

	June 30,	
	2016	2015
Patents	**$ 1,833,794**	$ 1,773,284
Trademarks	**115,089**	113,318
Less: Accumulated amortization	**(1,199,720)**	(1,072,460)
Intangible Assets, net	**$ 749,163**	$ 814,142

Future amortization of Intangible Assets, as of June 30, 2016, are as follows:

Year ending June 30,	
2017	$ 190,606
2018	103,966
2019	75,205
2020	64,479
2021	56,413
Thereafter	258,494
	$ 749,163

Amortization expense for the years ended June 30, 2016 and 2015 were $243,073 and $254,883, respectively.

6. LONG-TERM DEBT

As of June 30, 2016, 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, 2016, the book value of the real estate and improvements was $1,986,680.

As a result of the net loss for the year ended June 30, 2016, the Company did not meet a financial covenant required under the loan document. A covenant waiver was issued by the lender.

Although a waiver was granted by the lender, there is no certainty that future waivers would be granted.

Long-term debt is comprised of the following:

	June 30,	
	2016	2015
Mortgage note	**$ 2,414,212**	$ 2,499,689
Less: Current Maturities	**(91,447)**	(87,136)
Long-term Debt, Net of Current Maturities	**$ 2,322,765**	$ 2,412,553

Maturities of the long-term debt are as follows:

Year ending June 30,	
2017	$ 91,447
2018	95,978
2019	100,741
2020	105,748
2021	111,011
Thereafter	1,909,287
	$ 2,414,212

7. INCOME TAXES

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

	Federal	State	Total
Year Ended June 30, 2016			
Current	**$ -**	**$ 3,000**	**$ 3,000**
Deferred	**(154,586)**	**(61,090)**	**(215,676)**
	$ (154,586)	**$ (58,090)**	**$ (212,676)**
Year Ended June 30, 2015			
Current	$ -	$ 1,750	$ 1,750
Deferred	39,746	287	40,033
	$ 39,746	$ 2,037	$ 41,783

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

	June 30,	
	2016	2015
Deferred Tax Asset		
Net Operating Losses	**$ 794,102**	$ 665,169
Adjustment of Goodwill	**196,069**	196,069
Research & Development Credits	**678,230**	542,662
Valuation Allowance	**(368,313)**	(299,634)
Total Deferred Tax Assets	**1,300,088**	1,104,266
Deferred Tax Liability		
Depreciation	**(258,328)**	(278,182)
Total Deferred Tax Liability	**$ (258,328)**	$ (278,182)

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, 2016, the Company has net operating loss carry forwards of $1,948,602 and $1,963,839 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, 2036 and June 30, 2023 for Federal and State tax purposes, respectively. In addition, the Company has Research and Development Tax Credits of approximately $459,830 and $218,400 for Federal and State tax purposes, respectively, which expire in various years through June 30, 2035 and June 30, 2030, 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,	
	2016	2015
Federal statutory tax rate	**34.0 %**	34.0 %
State income tax - net of federal tax benefit	**6.5**	1.1
R & D credits	**19.5**	(16.5)
Adjustment in valuation allowances	**(1.9)**	-
Permanent and other differences	**(2.2)**	2.9
	55.9 %	21.5 %

The Company applies the provisions of FASB's ASC 740-10-25, *Income Taxes*, which provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. ASC 740-10-25 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company had no tax positions relating to open income tax returns that were considered to be uncertain. Accordingly, we have not recorded a liability for unrecognized tax benefits upon adoption of ASC 740-10-25. There continues to be no liability related to unrecognized tax benefits at June 30, 2016.

The Company's tax returns for the fiscal years 2013, 2014, 2015 and 2016 for Federal and fiscal 2012, 2013, 2014, 2015 and 2016 for New Jersey, remain subject to examination by the respective taxing authorities. In addition, net operating losses and research tax credits arising from prior years are also subject to examination at the time that they are utilized in future years. Neither the Company's federal or state tax returns are currently under examination.

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 2015 or 2016 fiscal years as Directors waived their options earned in lieu of cash payments.

As of June 30, 2015 and 2016, 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, 2015 or June 30, 2016.

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™, HerbaSafe™, Hydromer® Anti-Fog/Condensation Control Coatings, Hydromer® Lubricious Coatings, Rhinohyde™, Sea-Slide®, STAYWET™ 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. Two customers accounted for 27% of the polymer research segment sales for the 2016 fiscal year. No single customer accounted for more than 10% of the polymer research segment sales for the 2015 fiscal year. For the medical products segment, three customers accounted for 84% and 86% of that segment's 2015 and 2016 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, 2016				
Revenue	**$ 4,459,668**	**$ 1,283,153**		**$ 5,742,821**
Expenses	**(3,299,711)**	**(1,191,665)**	**$ (1,632,171)**	**(6,123,547)**
Earnings (Loss) before Income Taxes	**$ 1,159,957**	**$ 91,488**	**$ (1,632,171)**	**$ (380,726)**
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

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

	2016	2015
Domestic	**72%**	71%
Foreign	**28%**	29%

Hydromer, Inc.
Notes to the Consolidated Financial Statements

11. EARNINGS PER SHARE

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

	2016	2015
Numerator:		
Net (loss) income	**$ (168,050)**	$ 152,390
Denominator:		
Denominator for earnings per share - weighted average shares outstanding	**4,772,318**	4,772,318
(Loss) Earnings per share	**$ (0.04)**	$ 0.03

There were no common stock equivalents (e.g. stock options) outstanding as of June 30, 2015 or 2016.

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, 2016 and 2015 were $45,000 and $36,000, respectively.

14. SUBSEQUENT EVENTS

The Company evaluated the events and transactions subsequent to its June 30, 2016 balance sheet date and, in accordance with FASB ASC 855-10-50, *Subsequent Events*, determined there were no significant events to report through October 7, 2016 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, 2016, 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, 2016 were $5,742,821 as compared to $5,830,090 for the same period last year, a decrease of $87,269 (1.5%).

Product sales and services revenues were $4,688,561 for the 2016 fiscal year, lower by $85,768 against the prior fiscal year's $4,774,329 (1.8%).

License, royalties and contract payments came in flat at $1,054,260 for fiscal 2016 as compared with the $1,055,761 the year before (-0.1% change).

Management Comment: Product sales for the 2016 fiscal year ended June 30, 2016 were $3,323,100 as compared with the 2015 fiscal year amount of $3,302,112, or higher by $20,988 (0.6%). The 2016 fiscal year product sales included $253,638 in periodic private label T-HEXX DRY external teat sealant sales (there was none during fiscal 2015), offsetting the lower sales of T-HEXX Animal Health Viscosity Modifier products. (There were no private label T-HEXX DRY external teat sealant sales during the 2015 fiscal year as a result of sizeable orders being delivered in the second half of the fiscal 2014 year, pushing the fiscal 2015 orders received late into that year, with delivery actually made in fiscal 2016.)

Contract Coating Services revenues ($1,365,461 for fiscal 2016) returned to the fiscal 2014 levels following the higher 2015 volume ($1,472,217) from a customer build up of inventories. While there is the expectation of a gradual decline to contract coating services as a result of our customers converting to product sales and/or license/contract payments customers, new business/customers have kept the level of services revenues relatively flat with periodic swings over recent years.

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. The license, royalties and contract payments revenues for the 2016 fiscal year ended June 30, 2016 were $1,054,260 flat to fiscal 2015's $1,055,761.

Total Expenses for the year ended June 30, 2016 were $5,910,871, $233,171 (4.1%) higher than the 2015 fiscal year results of $5,677,700.

Cost of Goods Sold was $1,788,476 for fiscal 2016 as compared to $1,620,440 for fiscal 2015. Operating Expenses were $4,209,842 and $4,014,707, for the years ended June 30, 2016 and 2015, respectively. Other Expenses were $125,229 for fiscal 2016 as compared to $770 for fiscal 2015. An Income Tax Benefit of $212,676 is being recognized for fiscal 2016 as compared with an Income Tax Provision of $41,783 for fiscal 2015.

Management Comment: A product mix change, increasing the Cost of Goods Sold, higher staffing costs (increased headcount and higher employee benefits costs) and, fiscal 2015's litigation settlement offset by the Income Tax Benefit yielded a net increase to the Operating Expenses for the 2016 fiscal year.

The Cost of Goods Sold of $1,788,476 for the fiscal 2016 year was $168,036 (10.4%) higher than the $1,620,440 the preceding year, due to a change in product mix with a larger percentage of lower margin products sold during fiscal 2016 as well as from higher medical benefits costs. Operating Expenses were up by $195,135 (4.9%) from fiscal 2015 to fiscal 2016 due a higher staffing level necessary for the Company to obtain its ISO 9001:2015 certification granted on May 16, 2016. In addition, in times of continuing escalating costs for wellness benefits, the Company opted to maintain the same medical benefits level to its employees, adding to its cost structure. Other Expenses includes mortgage interest ($128,559 for fiscal 2016 and $131,904 for fiscal 2015), and, for fiscal 2015, is reduced by the $135,00 litigation settlement received. For the 2016 fiscal year, there is an Income Tax Benefit of $212,676 as compared with an Income Tax Provision of $41,783 for the 2015 fiscal.

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 $841,526 for fiscal 2016, comprised of Research & Development expenditures (mostly salaries and benefits) and the funding towards the patent and trademark estate, representing 20.0% of the Company’s Operating Expenses. This compares against the $920,585 (22.9% of the Operating Expenses) for the year ended June 30, 2015.

A Net Loss of $168,050 ($0.04 per share) is reported for the 2016 fiscal year as compared with Net Income of $152,390 ($0.03 per share) for the 2015 fiscal year.

Management Comment: Our anticipated growth projections, both organically as well as from the introduction of new products, were not entirely realized. The introduction of various T-HEXX Animal Health products, our new ABRATE-X518™ abrasion resistant anti-fog coating and our new HerbaSafe™ consumer product line (comprised of a hand sanitizer, foaming hand soap and antiseptic crème) were delayed due to extended post development testing and marketing launch scheduling challenges. We are working toward a launch of some or all of these products during the 2017 fiscal year.

Liquidity and Capital Resources

Working Capital as of June 30, 2016 was $1,270,776 compared against $1,581,485 the prior year or an decline of $310,709.

The Cash Provided by Operating Activities was $194,337 which includes $386,142 from the non-cash depreciation and amortization expense and $177,059 from the change to the accounts receivable balance offset by the increase to deferred income taxes of $215,676. The cash used for Investing Activities (for the purchase of property and equipment and payments to the patent estate and trademarks) totaled $243,394. The repayment of the Company’s mortgage utilized $85,477 for principal payments towards debt reduction. The mortgage balance as of June 30, 3016 was $2,414,212. The last appraisal conducted in April 2015 appraised the property at $5,300,000.

Management Comment: For the year ended June 30, 2016, the Company has an EBITDA (Earnings before Interest, Income Taxes, Depreciation and Amortization) of $136,336 (2.4% of Total Revenues), a change of EBITDA against previous years ($977,374 or 16.9% of Total Revenues, $742,237 or 12.3% of Total Revenues and $733,808 or 12.6% of Total Revenues, for the 2013, 2014 and 2015 fiscal years, respectively). Lower revenues, higher costs of sales due to a product mix change along with higher staffing costs impacted the year's results.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Hydromer, Inc (a New Jersey corporation) and subsidiary, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hydromer, Inc. and subsidiary as of June 30, 2016 and 2015, and the results of their operations and their 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

October 7, 2016

ABOUT HYDROMER, INC.

Hydromer, Inc. (the "Company") is an ISO 9001:2015 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 registered trademarks, including AQUAMERE®, a cosmetic intermediate with water resistant film forming properties; AQUATRIX®, a cosmetic hydrogel; BIOSEARCH®, medical device product lines; CARVANELLA®, a triclosan free herbal dairy cleaner; DERMASEAL®, a dermal barrier film product for the prevention of contact dermatitis; DRAGONHYDE®, hoof enhancement products; HERBADIP®, a low-drip post-milking barrier teat dip; 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**, **Industrial/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 include its hydrophilic lubricious coatings, biostatic/bacterial resistant coatings, cell anti-mitosis and thrombo-resistant 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 bacterial resistant coating.

<u>HYDROMER Coatings: Lubricious / Bacterial Resistant / Thrombo-resistant / Cell mitosis / Cell Adhesion</u>

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 coatings, both in a bound and unbound fashion, allowing for controlled release from the device for therapeutic purposes or the creation of permanent biocidal or biostatic surfaces (bacterial resistant coatings).

Certain Hydromer coatings have been shown in numerous studies to reduce the risk of thrombogenesis or clot formation on devices. Such thrombo-resistant 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.

Stand-still and License/Supply and Support Agreements

A portion of the Company's revenues is 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.

Supply and Support Agreements

In order to avail our customers of a continued material source or 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.

As of June 30, 2016, the Company has supply and support agreements with over three dozen companies covering the application or availability of Hydromer coatings to the following devices:

- angioplasty balloon catheters,
- biliary and pancreatic stents,
- 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 injectors,
- 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.

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 or 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.

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. 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 source 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 markets 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 bacterial resistant 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 optically clear 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 has 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.

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 reformulating where necessary.

ANIMAL HEALTH

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 farmers 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 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 have 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 this niche market, while priced comparably to 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.

The Company offers 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 bacterial resistant barrier 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 up to 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. Our *T-HEXX* DRY product is also sold under private-label, reflecting the strength of the 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. A dissolvable hoof bath powder, Dragonhyde **DUST** was launched in the fall/winter of 2012 to replace the Dragonhyde HBC. The successor Dragonhyde **DUST**, no longer faced the logistical challenges and costs of shipping the liquid Dragonhyde HBC (a one pound pouch of Dragonhyde **DUST** was equivalent to a gallon (approximately 8 lbs in weight) of Dragonhyde HBC and is readily shippable via common carrier unlike its predecessor).

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 customers. 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 therefrom, and (2) medical products. The Company does not have any significant customer concentration.

Potential Applications

The Company continues to explore other applications of the complexing capabilities of polymeric substances, such as bacterial resistant 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 become 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 bacterial resistant 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 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, 2016, the Company has nine U.S. patents, four U.S. applications and various foreign counterparts. The Company's existing patents and patent applications cover 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", "Carvanella", "Dermaseal", "Dragonhyde", a dragon logo, "HerbaDip", "Hydromer", "Sea-Slide", "STAYWET" and "T-HEXX" in the United States and other countries.

Employees

As of June 30, 2016, the Company and its subsidiary had thirty-nine 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 with historical reports available at www.sec.gov.

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

MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since January 9, 1986, reporting of trading of the Company's Common Stock (symbol "HYDI") has been on the National Daily Quotation Service (commonly known as the "Pink Sheets"). For the past twenty-nine years, trading in the Company's stock has been limited.

The Company's Common Stock traded at prices ranging $0.40 and $0.95 in the fiscal year 2016 and between $0.37 and $1.50 in the fiscal year 2015. 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 16, 2016 was 175. There are approximately 350 individual shareholders of the Common Stock.

CORPORATE INFORMATION

CORPORATE OFFICERS

Manfred F. Dyck
Chief Executive Officer,
President

Martin C. Dyck
Executive Vice President, Operations and
President of Biosearch Medical Products subsidiary

John Konar
Vice President, Quality Assurance
and Director, Human Resources

Robert Y. Lee, CPA, MBA
Vice President, Finance,
Chief Financial Officer and Treasurer

Marjorie Chertok
General Counsel, Corporate Secretary

BOARD OF DIRECTORS

Manfred F. Dyck, Chairman
Hydromer, Inc
CEO and President

Arthur K. Degen
Private Investor,
Adjunct Professor, NJIT, retired

Dieter Heinemann
Frankfurt Stock Exchange
Specialist, retired

James S. Pacetti
Pace Medical Inc,
Founder & President

George A. Ziets
Consulting / Product
Development

Robert H. Bea
Integra LifeSciences, Inc.
Vice President/Global Leader,
QA Commercialization

Michael F. Ryan, Ph.D.
Medical/Marketing Decisions
President

INDEPENDENT ACCOUNTANTS
Rosenberg Rich Baker Berman & Company
265 Davidson Avenue
Somerset, NJ 08873
(908) 231-1000

REGISTRAR & TRANSFER AGENT
Computershare Shareholder Services
PO Box 30170
College Station, TX 77842-3170
(877) 373-6374

U.S. Patents

6,054,504	Biostatic coating for the reduction and prevention of bact adhesion
6,121,375	Gels formed by the interaction of poly(aldehyde)
6,203,812	Hydrophilic polymer blends used to prevent cow skin infections
6,365,664	Gels formed by the interaction of poly(aldehyde)
6,379,702	Gels formed by the interaction of pvp with chitosan k=0-60
6,395,289	Hydrophilic polymer blends used to prev (continuation)
6,440,442	Hydrophilic polymer blends used for dry cow therapy
6,599,448	Radio-opaque polymeric composition
7,008,979	Coating composition for multiple hydrophilic applications

Applications of patent use ranges from:
Animal Care
Anti-bacterial / biostatic
Anti-fog
Drug Delivery / Complex Systems
Hydrogels
and
Lubricious Coatings

The Company also have various foreign counterparts to their U.S. patents

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http://www.hydromer.com • Video Conferencing IP address: video.hydromer.com

HYDROMER® Products & Services:

- Medical Coatings
  - Drug Delivery
  - Bacterial Resistant
  - Thrombo-Resistant
  - Anti-cell adhesion/proliferation
- Contract manufacturing/coating
- Medical Hydrogels
- Cosmetic Intermediaries
- Anti-fog / Anti-frost condensation control coatings
- T-HEXX® Animal Health
- Coating formulation
- Process development
- Device design feedback
- Machine design & build
- Prototype production - GMP/ISO
- Technology / process transfer
- Cell Biology
- Blood Chemistry
- OEM Medical Device Manufacturing
- Analysis
- Testing
- Polymer Synthesis
- Microbiology
- Bio-Polymer Production
- Web Coating/Film Coating
- Tube Coating: External and Internal

Hydromer's brands:
(partial list)

Hydromer®

AQUAMERE® hydrogel cosmetic ingredients

AQUATRIX® II hydrogels

biOsearch® MEDICAL PRODUCTS INC.

T-HEXX® Animal Health

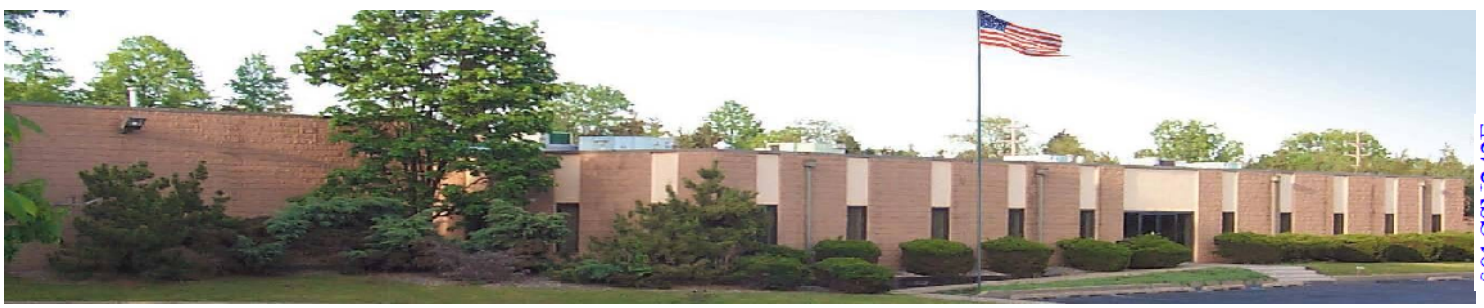
DermaSea® allergen-blocker

CARVANELLA® HERBAL DAIRY CLEANER

Dragonhyde®

Sea-Slide® high performance formula

HerbaDip® POST MILKING BARRIER



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We can help make your ideas become reality

Hydromer®

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