HYDRON TECHNOLOGIES INC
Form 10-K/A
June 03, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A-1
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the year ended December 31, 2002 or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file Number 0-6333

HYDRON TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

New York	13-1574215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2201 West Sample Road, Building 9, Suite 7B, Pompano Beach, FL 33073
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (954) 861-6400

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any other amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $1,680,405 based upon the closing price of $0.33 on March 12, 2003.

Number of shares of Common Stock outstanding as of March 15, 2003: 7,050,136

Documents Incorporated by Reference: None

PART I

Item 1. Business

Introduction

Hydron(TM) Technologies, Inc. ("the Company"), a New York corporation organized on January 30, 1948, maintains its principal office at 2201 West Sample Road, Building 9, Suite 7B, Pompano Beach, Florida 33073 and its telephone number is (954) 861-6400.

Hydron(TM) Technologies, Inc. markets a broad range of consumer and oral health care products using a moisture-attracting ingredient (the "Hydron(TM) polymer"), and owns a non-prescription drug delivery system for topically applied pharmaceuticals, which uses such polymer. The Company holds U.S. and international patents on, what Management believes is, the only known cosmetically acceptable method to suspend the Hydron(TM) linear polymer in a stable emulsion for use in personal care/cosmetic products. The Company is developing other personal care/cosmetic products for consumers using its patented technology and would, when appropriate, either seek licensing arrangements with third parties, or develop and market proprietary products through its own efforts. Management believes that because of their unique properties, products that utilize the Hydron(TM) polymer have the potential for wide acceptance in consumer and professional health care markets.

Hydron Branded Skin Care Products

The Company has been engaged in the development of various consumer products using Hydron(TM) polymers since 1986. The Company's products are designed to address concerns about aging, and include Hydron(TM) skincare, hair care, bath and body and sun care. The Company currently has thirty-nine individual products available in the following product lines: skin care (22 products), hair care (7 products), bath and body (8 products) and sun care (2 products). These products are also packaged into collections and sold at a more favorable value than the individual products sold separately. All of the products are available through the Hydron(TM) Catalog and Web site www.hydron.com ("Catalog").

Management believes that the Company's product lines are unique and offer the following competitive benefits: the moisturizers self-adjust to match the skin's optimal pH balance soon after they are applied to the skin; they become water-insoluble on the skin's surface, and unlike all other water-based cremes and lotions, are not removed by the skin's perspiration or plain water; they are oxygen-permeable, allowing the skin to breathe; they do not emulsify the skin's natural moisturizing agents, as do conventional cremes and lotions; and they attract and hold water, creating a cushion of moisture on the skin's surface that promotes penetration of other beneficial product ingredients, all while leaving no greasy after-feel.

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

are based on the Company's patented emulsion system, which permits the product ingredients to deliver their intended benefits over an extended period of time and in a more efficient manner.

Management believes that the Hydron(TM) emulsion system can enhance the effectiveness of topical over-the-counter medications. The emulsion system is designed to deposit a polymer film on the skin's surface which has a number of advantages over traditional lotions: promotes hydration of the outer layer of skin, improves penetration into the skin's pores, and has good tactility and flexibility. The Company expects to continue to focus research and development resources on proprietary technology-based products as determined by Management's assessment of consumer demand.

The Company discovered that the Hydron(TM) emulsion system also adjusts pH on the skin to match the pH of the stratum corneum, the skin's surface layer. It is evident in recent skin research (see Kligman, in "Dry Skin and Moisturizers, Chemistry and Function", editors Marie Loden and Howard I. Maibach, CRC Press, New York, p 3-9 2002) that the pH range of the emulsion system is ideal for contributing to the skin's natural healing process and enzyme production responsible for rebuilding the skin's lipid barrier. A patent application was filed February 14, 2002 to cover this technology, which also applies to a new acne treatment system.

Super-oxygenated Fluids and Compositions

Since August 2000, the Company has been researching and developing a new technology that provides a method for the delivery of oxygen into the skin and tissue at depths considered medically therapeutic without the use of the bloodstream. The Company filed for patent protection as of February 2001. The patent application is pending. Management anticipates that as a result of its continuing research into tissue oxygenation, the Company's primary focus will begin to shift from personal care/cosmetic products to developing/licensing applications or products based upon this new technology.

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

Research and development efforts to date have included clinical testing, in-vitro bacteriological testing, micro-bubble size analysis, packaging prototypes, and stability testing. Clinical testing on healthy subjects was conducted at the University of Massachusetts Medical School; Department of Thoracic Surgery producing an average increase in subcutaneous tissue oxygenation of 54% in healthy individuals. Management believes that these tests provided the first-ever evidence that subcutaneous tissue could be oxygenated from the outside in.

Item 1. Business (continued)

The skin treatment is expected to have numerous applications in wound healing and anti-aging skincare treatments. Current medical research shows that each year, in the United States alone, medical problems associated with oxygen

deprivation to the skin and tissues can affect over 16 million diabetics, two million burn patients, 600,000 individuals with impaired circulatory systems and countless other applications, from individuals suffering with chronic wounds to extending the life of organs for transplant during transportation. Likewise, medical problems associated with anaerobic bacteria (i.e. organisms that thrive in the absence of oxygen) such as acne, diaper rash, post-operative infections and periodontal disease may be reduced or eliminated by application of this technology.

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

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

On December 10, 2002, Hydron(TM) completed a non-brokered private placement of 1,750,000 Units at $.20 per Unit ($350,000), to several accredited investors including its chairman, Richard Banakus and a director, Ron Saul. Each Unit is comprised of one share of common stock and one three-year option to buy one additional common share at $.20. The proceeds will be added to the Company's working capital and enable Hydron(TM) Technologies to maintain its catalog business, while supporting basic development of Hydron(TM)'s patent pending skin and tissue oxygenation technology and associated intellectual property.

Professional Products

The Company has also developed and currently markets a group of Hydron(TM) polymer-based products for dental professionals under the Hydrocryl(TM) brand name. These include a heat cured material used in the manufacture of dentures, as well as cold cure kits used in connection with the relining or repairing of existing Hydrocryl(TM) or conventional acrylic dentures that is necessitated by the continual changes that occur in the tissue structure of the mouth. Management believes that the hydrophilic, or moisture attracting properties, of these Hydron(TM) polymer-based products give them competitive

advantages over conventional acrylic dentures and denture repair kits, which are not hydrophilic. Sales of Hydrocryl(TM) brand name products were minimal in 2002, 2001 and 2000.

Distribution

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

salons and doctors offices.

While in prior years television retail was the primary focus for the marketing and distribution of the Company's products, Management believes that the Company's exclusive agreements with television retailers had limited the marketing opportunities to build its business through additional sales channels. Under exclusive contracts with television retailers the Company neither controlled its airtime nor the selling priorities of those television retailers, effectively handicapping the Company's ability to influence sales trends.

The Company began diversifying away from television retailers in 2001 with continued focus on developing the Catalog business and the addition of a private label customer to provide additional cash flow. Further, the Company has been pursuing new international distribution and new products that would significantly augment Hydron(TM)'s direct marketing efforts. This development includes filing a patent in February 2002 on new acne formulas that provide marked performance improvements versus other over-the-counter products currently on the market.

Catalog Sales

The Company's full color brochure offers personal care products for sale directly to consumers. The Catalog also provides information on new products, educates consumers on proper skin care and facilitates consumer re-ordering. The Company sells its products on the World Wide Web and regularly transmits E-mail broadcasts to its customer base. Catalog sales represents approximately 68.5% of Hydron's total annual sales in 2002 and 55.2% in 2001. The Company is continuing to explore new ways to enhance Catalog sales and operations.

Private Label Contracting

Effective March 1, 2001, the Company entered into an agreement with Reliv International, Inc ("Reliv") to develop and manufacture a line of private label skin care products under their brand name, ReversAge(R). Five products were introduced in August 2001 at a national sales meeting to Reliv's multi-tier marketing distribution network. A sixth new product was introduced in February 2002. The agreement requires minimum product purchases and advance payments to cover packaging and design costs. Reliv is a public company traded on NASDAQ (symbol RELV). Private label sales represent approximately 7.8% of Hydron's total annual sales in 2002 and 18.9% in 2001.

Item 1. Business (continued)

International

The Company sells product to an Australia-based health and beauty products distributor for retail salon stores and medical offices in Australia and New Zealand. The Company also distributes dental products into Spain and, to a lesser extent, other countries. Although this category is not significant at this time, Management is committed to the expansion of international sales and believes that international sales represent one of the foundations for the future growth of the Company.

Retail

The Company has established minor levels of retail distribution. Initially, utilizing excess inventory, the Company has sold product on a

limited, promotional basis to several retailers utilizing current packaging configurations. It is anticipated that any significant retail effort of core Hydron(TM) products would require investment in repackaging.

Research and Development

The Company expects to continue to focus research and development resources on additional Hydron(TM) polymer-based products, as well as other proprietary technology-based products as determined by Management's assessment of consumer demand. The Company's research and development efforts during 2002 continued to achieve greater diversification among the Company's product lines by development of new products targeted at the aging baby boomer marketplace.

Management has completed development of an acne ingredient delivery system. The technology allows for acidic ingredients to be delivered to the straum corneum of skin at neutral pH (~6.8 to 7.0) where it then gradually adjusts to match the pH of the stratum corneum below 5.5. This delivery technique avoids the irritation and burning associated with traditional acne ingredients that deliver ingredients at pH values as low as 2.0. Hydron(TM) filed for provisional patent protection in February 2002 with a subsequent utility patent filed in February 2003 for the US and international markets.

In the acne market, the medicinal cure is often more irritating and elicits more redness than the skin breakout. The new system significantly reduces the harshness and irritation caused by most acne products currently in the marketplace. This technology is being presented to potential private label customers.

The Company is also continuing to research new technology-based and possibly patentable skin treatment systems that would augment its product line. During the last two years, the Company's research and development efforts advanced groundbreaking research into oxygenated skin treatments that may provide anti-aging treatments, wound treatments and healing enhancement. Where possible, the Company will license these technologies to other company's expert in their respective fields. Research and development efforts include product formulation, clinical testing, packaging design and prototypes, extensive product safety and stability testing conducted by medical professionals, efficacy studies to support product claims, and consumer research.

Item 1. Business (continued)

Charles Fox, a consultant and a former member of the Company's Board of Directors from September 1997 to October 1998, leads the Company's research and development efforts. Mr. Fox was formerly director of product development for Warner Lambert Company's personal products division and president of the Society of Cosmetic Chemists.

Patented Technology

The Company strongly believes that technology and patent protection are essential to providing a sound foundation for a new product. The Company was granted U.S. Patent No. 4,883,659, dated November 28, 1989, and U.S. Patent No. 5,039,516, dated August 13, 1991, which cover a stable moisturizing emulsion containing an unusual emulsifying agent, as well as the Hydron(TM)polymer and a unique combination of ingredients. These patents have expiration dates of November 28, 2006 and August 13, 2008, respectively. During 1999 the Company was granted U.S. Patent No. 5,879,684 for its "Line Smoothing Complex" formula. This product has been clinically shown to reduce fine lines and wrinkles. The patent

has an expiration date of April 11, 2017. In addition, the Company has registered several trademarks relating to its cosmetic products.

The Company has also received patent protection for its emulsification process in several countries to facilitate distribution and sale of these products outside of the United States. The Hydron(TM) polymer, utilized in cosmetic emulsions, creates a thin moisture-attracting film that is non-greasy; is not dissolved by sebaceous oils or perspiration; does not emulsify the skin's natural oils and humectants; and allows the skin to breathe. The film is insoluble in water and resistant to rub-off, but can easily be removed with cleanser and water.

The Company subsequently discovered that the Hydron(TM) emulsion system also adjusts pH on the skin to match the pH of the stratum corneum, the skin's surface layer. It is evident in recent skin research that the pH range of the emulsion system is essential for contributing to the skin's natural healing process and enzyme production responsible for rebuilding the skin's lipid barrier. The Company filed a provisional patent application related to acid based ingredient delivery, including acne ingredients in February 2002 with the corresponding utility patent application and international filings in February 2003.

The Company also developed the super-oxygenation technology to deliver vital oxygen to skin and tissue without using the bloodstream. A provisional application was filed in February 2001 with the utility patent and associated international filings in January 2002. The Company is awaiting initial office action on the part of the US Patent and Trademark Office.

Manufacturing and Raw Materials

Hydron(TM) polymer-based products are manufactured exclusively for the Company by independent third parties. The Company has used principally two manufacturers of cosmetic products because of the quality of their production and reasonable costs. To date, contract manufacturing has allowed the Company to meet inventory requirements in a timely manner. All raw material and packaging components for the Company's consumer and professional product lines are readily available to the Company from a variety of sources.

The Company is not dependent on any sole manufacturer except that the Company's ability to obtain additional supply of the Hydron(TM) polymer is dependent on GP Strategies Corporation (formerly known as National Patent Development Corporation) ("GPS") and its assignee, Hydro-Med Sciences, Inc. ("Hydron-Med"), which owns certain proprietary information relating to the manufacture of the Hydron(TM) polymer. Under the terms of an agreement with GPS, as amended and restated (the "GPS Agreement"), GPS is obligated to supply the Company with up to 3,000 kilograms of the Hydron(TM) polymer for so long as GPS manufactures the Hydron(TM) polymer, and the Company is obligated to purchase its first 3,000 kilograms of Hydron(TM) polymer from GPS. In the event GPS is unable to manufacture and supply the Company with its requested quantity of Hydron(TM) polymer, GPS is obligated to provide the Company with information and assistance regarding all technology and manufacturing procedures (including know-how) possessed by GPS and use in connection with the manufacture of the Hydron(TM) polymer.

The Company is currently negotiating certain changes in the GPS Agreement with Hydro-Med, including the provisions relating to supply of the

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

Agreement with GPS

Under the terms of the GPS Agreement, the Company has an exclusive worldwide license to manufacture, market or use non-prescription products that include the Hydron(TM) polymer in the consumer field, including in connection with cosmetic products and certain personal care products, and in the oral health field, including dentures. Under the GPS Agreement, GPS retained the exclusive right to manufacture, sell or distribute any prescription drug or medical device made with the Hydron(TM) polymer, other than in the oral health field. In addition, under the GPS Agreement, the Company and GPS may each

manufacture, sell, and use non-prescription drug products that include the Hydron(TM) polymer as an active ingredient that are not included in their respective exclusive fields.

Under the GPS Agreement, GPS also licenses to the Company the trademark Hydron(TM) for use in connection with the manufacture, marketing and use of products using Hydron(TM) polymers as permitted under the GPS Agreement.

Under the terms of the GPS Agreement, the Company and GPS are each required to pay to the other a royalty of five percent (5%) of their respective net sales of Hydron(TM) polymer products, except for sales of non-prescription drug products utilizing the Hydron(TM) polymer as an active ingredient to third parties where the seller receives an up-front license fee, royalty or similar payment where the seller shall pay the other party a royalty of twenty-five percent (25%) of such payments. For the years ended December 31, 2002, 2001 and 2000, the Company has paid or accrued for payment to GPS approximately $0, $87,000 and $104,000, respectively. No royalty expense was required in 2002 as the definition of applicable products was changed creating a surplus accrual. An aggregate of $127,437 was accrued and unpaid as of December 31, 2002. This amount is adequate to cover any royalties that might be payable through 2002. The Company has not received any royalty payments, or been advised of any sales that would entitle them to royalty payments during this period.

GPS has assigned its rights under the GPS Agreement to Hydro-Med. In December 2002, the Company and Hydro-Med reached an agreement in principle to amend the GPS Agreement to adjust their respective obligations to make royalty payments. Under the terms of this agreement in principle, the Company's obligation to pay accrued, but unpaid royalties, would also be eliminated. However, Hydro-Med has requested certain other changes to the GPS Agreement, including changes relating to Hydro-Med's obligation to supply the Hydron(TM) polymer, that are unacceptable to the Company. Accordingly, as of March 31, 2003, the Company has not entered in to a binding agreement to amend the terms of the GPS Agreement.

Inventory

The Company did not have any backorder of firm booked orders as of December 31, 2002, and generally delivers its orders within two weeks of the date orders are booked. Although the Company's business in not seasonal, orders placed by Hydron(TM)'s private label customers and television retailers fluctuate on a monthly and quarterly basis. Orders placed by the Company's Catalog customers are generally shipped within two days of the placement of the order.

Most items can be produced within a 90-day period. Finished good inventory will average between 6 - 12 months of sales. Packaging components must be printed in larger quantities and the level of those types of items may exceed 12 months sales. The inventory level of the Hydron(TM) polymer, which is unique and comes from a single source, exceed several years and it is stored in two locations to ensure availability.

Item 1. Business (continued)

Government Regulation

Most of the Company's skin care, hair care, and bath and body products are "cosmetics" as that term is defined under the Federal Food, Drug and Cosmetics Act ("FDC Act"), and must comply with the labeling requirements of the FDC Act, the Fair Packaging and Labeling Act ("FPL Act"), and the regulations thereunder. Some of the Company's products (i.e. its topical analgesic and products that contain a sunscreen or Triclosan) are also classified as over-the-counter drugs. Additional regulatory requirements for such products include additional labeling requirements, registration of the manufacturer and semi-annual update of the drug list. Management believes that it is in compliance with these requirements and that it faces no material costs associated with such compliance.

Competition

The skin care business is characterized by vigorous competition throughout the world. Product recognition, quality, performance and price have significant influence on customers' choices among competing products and brands. Advertising, promotion, merchandising, the pace and timing of new product introductions and line extensions also have a significant impact on the consumer buying decisions. The Company competes against a number of marketers of skin care products, many of which have substantially greater resources than the Company. Although the Company is in competition with all skin care brands, direct competition in electronic retailing and catalog sales includes Principal Secret, ProActiv, Physician's Advice, Susan Lucci, Signature Club A, Marilyn Miglin, Dr. Graff, and Serious Skin Care.

Seasonality

The Company's results of operations are not subject to seasonal fluctuations.

Employees

The Company satisfies its human resource needs utilizing an outsourcing firm that provides all administrative services relating to payroll, personnel and employee benefits. Management continues to hire, fire, set pay rates and supervise its staff. This arrangement enables the Company to reduce its administrative and benefits costs relating to employees. The Company as of

December 31, 2002 had nine full time positions.

Item 2. Properties

The Company maintains its offices at 2201 West Sample Road, Building 9, Suite 7B, Pompano Beach, Florida 33073. The lease on this office space (3,750 square feet) expires August 31, 2003 and required a monthly rent of approximately $5,400, including taxes and common area expenses.

In August 2000, the Company's lease for its main warehouse at 95 Mayhill Street, Saddle Brook, New Jersey 07663 expired. The monthly rent was approximately $14,000. The Company moved the majority of its finished goods and components to a public warehouse at 14-01 Maple Avenue, Fair Lawn, New Jersey 07410 with a monthly rent of approximately $3,000 per month.

In addition, the Company moved out of its local warehouse space, of approximately 3,200 square feet, at 1120 Holland Drive, Suites 9 and 19, Boca Raton, Florida 33487, pursuant to a lease that expired in April 2000, at a monthly rent of approximately $2,900. This warehouse was subleased in April 1999 to an independent third party under terms similar to the original lease including the required rent and other payments. The Company no longer has any obligation under either lease. Management believes that it's current office and warehouse facilities are satisfactory for its present needs.

Item 3. Legal Proceedings

The Company is not a party to, and its property is not the subject of, any material pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the year ended December 31, 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

The Company's Common Stock is quoted on the OTC Bulletin Board, a regulated quotation service for over-the-counter securities not listed or traded on NASDAQ or a national securities exchange, under the symbol HTEC.OB. The following tables indicate the high and low closing prices for the Company's Common Stock as reported by the OTC Bulletin Board.

	High Closing Price	Low Closing Price
2002		
Fourth Quarter	$0.29	$0.20
Third Quarter	0.45	0.16
Second Quarter	0.34	0.21
First Quarter	0.39	0.25
2001		

Fourth Quarter	$0.44	$0.30
Third Quarter	0.50	0.35
Second Quarter	0.53	0.19
First Quarter	0.24	0.13

As of February 11, 2003, there were approximately 3,955 shareholders of record of the Company's Common Stock. The Board of Directors will determine the payment of dividends in the future in light of conditions then existing, including the Company's earnings and financial condition.

Item 6. Selected Financial Data

	Years Ended December 31,			
	2002	2001	2000	1999
Net Sales	$ 1,671,641	$ 2,132,717	$ 2,203,847	$ 2,665,513
Operating (Loss)	(905,868)	(748,243)	(946,771)	(3,064,189)
Interest and Investment Income	1,028	9,198	20,945	80,860
Net (Loss)	(904,840)	(758,696)	(923,632)	(2,974,142)
Basic & Diluted Earnings (Loss) per Common Share	(0.17)	(0.15)	(0.19)	(0.60)
Total Assets	1,468,549	2,036,182	2,800,515	3,835,303
Total Shareholders' Equity	887,606	1,382,944	2,141,640	3,065,272

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

In 2002 the Company virtually eliminated sales made through television retailers as the result of terminating the exclusive relationship with HSN in late 2001 and as revenues derived from resales by QVC to prior customers declined. Management expects that in 2003 and beyond, an increasing portion of its sales will be generated from direct marketing by the Company through use of direct response mail, Catalog print and sales made on its web site. Management also expects that the Company will generate an increasing portion of its revenues from sales made through private label customers and will look for other opportunities to sell the Company's products through similar arrangements. Management anticipates introducing new cosmetic products based on its oxygenation technology, which will open doors for new distribution. However, the types and timing of the introduction of new cosmetic products will depend upon the results of further clinical testing.

Management believes that the Company's survival and success is dependent upon its ability to enhance distribution of its current products through its proprietary Catalog and web site, the expansion of consumer access, particularly through third-party licensing arrangements; development of new products for retail distribution and the use of alternative channels of distribution such as private labeling and expansion into international markets.

Management believes that when patents are issued related to oxygenation technology, the Company will be likely to generate licensing income in the medical and related fields. The Company's ability to develop and market new cosmetic and OTC products will be significantly enhanced.

Results of Operations - 2002 versus 2001

Total net sales for 2002 were $1,671,641; a decrease of $461,076, or 21.6%, from net sales of $2,132,717 for the year ended December 31, 2001. Skin care products net sales for 2002 were $1,498,384, a decrease of $467,743 or 23.8% from $1,966,127 in 2001. Professional products net sales for 2002 were $30,108, an increase of $10,922 or 56.9% from $19,186 in 2001.

Skin care products consist of catalog sales, television retail, and private label sales. During 2002, direct marketing catalog sales decreased slightly by $31,263 or 2.6% from $1,178,252 in 2001 to $1,146,989 in 2002. The reduction in catalog sales resulted primarily from an increase in sales made with promotional discounts. Television retail sales in 2002 were $19,177, a decrease of $328,454 or 94.5% from $347,631 in 2001. The decrease in television retail sales reflects the termination of the HSN agreement in late 2001, as well as declining revenues received from repeat sales by QVC to prior purchasers of

the Company's products. Sales to television retailers represented 1.1% of the Company's sales in 2002, down from 16.3% in 2001. Private label sales were $131,208 in 2002; a reduction of $271,349 or 67.4% from sales of $402,557 in 2001, primarily the result of pipeline fill shipped to the customer in the second half of 2001. Professional sales consist of dental products sold to dental labs for use in manufacturing dentures. Dental product sales in 2002 were $30,108, an increase $10,922 or 56.9% from $19,186 in 2001. This increase was the result of our customer increasing their backroom stock after Hydron had delays in filling orders in 2002 when one of the required components was discontinued. It took several months for the Company to certify a new manufacturer and qualify their component for insertion in Hydron's dental product.

Over 97% of the Company's products are sold in the United States. The Company sells skin care products in Australia and dental products in Spain and Canada. In 2001, the Company also sold skin products to a pilot distributor in Taiwan, but that business was not continued in 2002. International sales are not material at this time and represented 1.7% and 2.5% of total sales for 2002 and 2001 respectively.

Cost of sales was $763,358 for 2002, a decrease of $179,302 or 19.0% from cost of sales of $942,660 for 2001. Cost of sales was 45.7% of total sales in 2002 compared to 44.2% in 2001. The increase in the cost of sales percentage reflects an increase in the cost of shipments to our customers that was not passed on in the customer's billings. Shipping cost in 2002 were $174,911, an increase of $3,731 or 2.2% from $171,180 in 2001. In 2002, 81.8% of the shipping costs were billed to customers compare to 86.1% in 2001. The Company monitors its inventory levels closely and writes-down any inventory in excess of one-year supply. Cost of sales include charges of $128,893 in 2002 to adjust inventories to one-year supply valued at the lower of cost or realizable value on a FIFO basis. Similar charges for 2001 were $154,594. Cost increases are not material to catalog sales and the private label contracts provide for a pass through of any cost increases incurred in that segment.

The Company's overall gross profit margin decreased slightly to 54.3% of net sales for 2002 versus 55.8% for 2001, as the increased shipping costs were not reflected in the customer billings. The gross profit margin of catalog sales decreased slightly to 80.3% in 2002 from 81.9% in 2001 as the result of the mix of products and collections sold.

Royalty expenses in 2002 were $0, representing a decrease of $86,574 or 100%, from royalty expenses of $86,574 in 2001. No royalty expense was required in 2002 as the definition of applicable products was changed, creating a surplus accrual. An aggregate of $127,437 was accrued and unpaid as of December 31, 2002. This amount is adequate to cover any royalties that might be payable through December 2002.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, conduct consumer panel studies, and focus groups. R&D expenses in 2002 were $68,257, an increase of $9,935 or 17.0%, from R&D expenses of $58,322 in 2001. The amount of R&D

expenses per year varies, depending on the nature of the development work during each year, as well as the number and type of products under development at such time.

Selling, general, and administrative ("SG&A") expenses in 2002 were $1,430,170, representing a slight increase of $2,054 or 0.1%, from SG&A expenses of $1,432,224 in 2001. Sales commissions for 2002 were $57,201, a substantial increase of $51,079 from $6,122 in 2001. This increase was directly related to commission paid during the Company's 2002 promotional program to introduce its product line to several retail chains. Employee payroll and benefits were $577,435 in 2002, an increase of $41,380 or 7.7% from $536,055 in 2001. Payroll increased 5.0% and the remaining increase reflected the escalating cost of medical benefits. Insurance expense for 2002 was $99,880, an increase of $22,674 or 29.4% from $77,206 in 2001. This increase is directly related to the increased cost of Directors and Officers insurance. All other SG&A expenses in 2002 were $695,654, a decrease of $117,187 or 14.4% from $812,841 in 2001. This decrease includes reductions in royalties, legal and audit fees, computer technology services and travel expenses.

Depreciation and amortization in 2002 was $315,724, a decrease of $45,456 or 12.6% from $361,180 in 2001. This decrease relates to the depreciation of the leasehold improvements associated with the Company's previous office facility. The lease on that facility expired September 2001 and the offices were relocated.

Interest and investment income in 2002 was $1,028, a decrease of $8,170 or 88.8%, from interest income of $9,198 in 2001, due primarily to lower cash balances resulting from the factors discussed above. The Company maintains a conservative investment strategy with respect to its cash balances, deriving investment income primarily from U.S. Treasury securities.

The Company had a net loss for 2002 of $904,840, representing an increase of $146,144 or 19.3% from the net loss of $758,696 for 2001, primarily a result of the factors discussed above.

Results of Operations - 2001 versus 2000

Net sales for 2001 were $2,132,717, a decrease of $71,130 or 3.2%, from net sales of $2,203,847 for the year ended December 31, 2000. Skin care products net sales for 2001 were $1,966,127, a decrease of $105,814 or 5.1% from $2,071,941 in 2000. Professional products net sales for 2001 were $19,186, an increase of $9,659 or 101.4% from $9,527 in 2000. Freight revenues for 2001 were

$147,404, an increase of $25,025 or 20.4% from freight revenues of $122,379 in 2000.

Skin care products consist of catalog sales, private label, television retail, and international sales. During 2001, direct marketing catalog sales were $1,178,252, an increased of $151,184 or 14.7%, from $1,027,068 in 2000. The increase in direct marketing catalog sales resulted primarily from an increase in new customer trial and the continuation of promotional offers to existing

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

customers. Private label sales in 2001 were $402,557. There were no private label sales in 2000. Television retail sales were $347,631 in 2001, a decrease of $697,242 or 66.7%, from $1,044,873 in 2000. The decrease in sales to television retailers HSN and QVC primarily reflect the limited airtime provided by HSN during the first nine months of the year and the termination of the exclusive sales agreement with HSN, as well as declining revenues received from resales by QVC to prior purchasers of the Company's products. Sales to television retailers represented 16.3% of the Company's sales in 2001, down from 47.4% in 2000. In 2001, the Company had initial sales of $33,355 to a new distributor in Taiwan. This is an introductory effort to determine if this new distributor and the Hydron products can impact the skin care market in Taiwan.

Over 97% of the Company's products are sold in the United States. The Company sells skin care products in Australia and Dental products in Spain and Canada. In 2001, skin care products were also sold in Taiwan. International sales are not material at this time and represented 2.5% and 1.5% of total sales in 2001 and 2000 respectively.

Cost of sales was $942,660 for 2001, an increase of $370,777 or 64.8% from $571,883 in 2000. Cost of sales was 44.2% of total sales in 2001 compared to 25.9% in 2000. The increase in 2001 reflects a shift of sales away from high margin television retail sales (61.1%) with high promotional costs to private label sales that have lower margins (38.1%) and minimal promotional costs. In addition, cost of sales in 2000 reflected a one-time savings of $175,000 when a packaging contract was favorably renegotiated. The Company monitors its inventory levels closely and writes-down any inventory in excess of one-year supply. Cost of sales include charges of $154,594 in 2001 to adjust inventories to one-year supply valued at the lower of cost or realizable value on a FIFO basis. There were no similar charges for 2000. The Company has been able to absorb the cost increases in Catalog cost of sales and the Private Label contracts provide for a pass through of any cost increases incurred in that segment.

As a result of the above factors, the Company's overall gross profit margin decreased to 55.8% of net sales for 2001 versus 74.1% for 2000.

Royalty expenses in 2001 were $86,574, representing a decrease of $16,984 or 16.4%, from royalty expenses of $103,558 in 2000. The decrease in 2001 is commensurate with the decrease in gross sales derived from Hydron(TM) polymer-based products by the Company. These expenses are related entirely to the Company's obligations under the GPS Agreement with Hydro-Med and pertain to the use of the Hydron(TM) polymers as a formula ingredient for many of the Company's products.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, conduct consumer

panel studies, and focus groups. R&D expenses in 2001 were $58,322, a decrease of $25,786 or 30.7%, from R&D expenses of $84,108 in 2000. The amount of R&D expenses per year varies, depending on the nature of the development work during each year, as well as the number and type of products under development at such time.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Selling, general, and administrative ("SG&A") expenses in 2001 were $1,432,224, representing a decrease of $495,709 or 25.7%, from SG&A expenses of $1,927,933 in 2000. This decrease is the result of: 1) lower marketing expenses associated with reducing activity with HSN in 2001 ($254,618), 2) reduced selling and advertising expenses associated with Catalog sales ($126,162), 3) reduced expenses related to outside consultants ($84,963), and 4) reduced expenses for rents resulting from the switch over to outside warehousing ($48,952). These cost reductions were partially offset by: 1) increased Catalog postage and handling associated with attracting new customers ($22,217), and 2) increased legal expenses associated with developing patents and contracts for new technology ($34,454).

The Company operated 2001 at a close-to-break-even cash flow rate ($23,879) while carefully investing in the future. Excluding some one-time charges, 2001 would have a positive cash flow of $157,628. During the year, there have been a number of one-time expenses that reduced operating cash, including: costs associated with a patent application ($58,572), legal costs associated with research and development technology ($84,718), and moving costs associated with the relocation of the corporate offices to Pompano Beach ($38,217).

Interest and investment income in 2001 was $9,198, a decrease of $11,747 or 56%, from interest income of $20,945 in 2000, due primarily to lower cash balances resulting from the factors discussed above. The Company maintains a conservative investment strategy with respect to its cash balances, deriving investment income primarily from U.S. Treasury securities.

The Company had a net loss for 2001 of $758,696, representing a reduction of $164,936 or 18% from the net loss of $923,632 for 2000, primarily as a result of the significant reductions in expenses, particularly relating to SG&A as discussed above.

Results of Operations - 2000 versus 1999

Net sales for 2000 were $2,203,847; a decrease of $461,666 or 17.3%, from net sales of $2,665,513 for the year ended December 31, 1999. Skin care products net sales for 2000 were $2,071,941, a decrease of $515,810 or 19.9% from $2,587,751 in 1999. Professional products net sales for 2000 were $9,527, an increase of $3,830 or 67.2% from $5,697 in 1999. Freight revenues for 2000 were $122,379, an increase of $50,314 or 69.8% from freight revenues of $72,065 in 1999.

Skin care products consist of catalog sales, private label, television retail, and international sales. During 2000, direct marketing catalog sales were $1,027,068, an increased of $205,539 or 25.0%, from $821,529 in 1999. The increase in direct marketing catalog sales resulted primarily from an increase in new customer trial and the continuation of promotional offers to existing customers. Television retail sales were $1,044,873 in 2000, a decrease of

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

$721,350 or 40.8%, from $1,766,223 in 1999. HSN sales slowed as the show schedule decreased on the HSN domestic channel, offset by an increase as HSE (Home Shopping Espanol) geared up for the Latin market introduction in November.

Approximately 63% of the Company's television retail sales during 2000 were to HSN and approximately 36% to QVC. Management anticipates that sales to HSN will grow to be a larger percentage of the Company's sales and, absent the consummation of marketing or distribution arrangements with third parties other than HSN, the Company's dependence upon direct response television as a distribution channel will decrease but remain significant. Any disruption in the Company's relationship with HSN would have a material adverse effect on the business, financial condition, and results of operations of the Company. Sales to television retailers represented 47.4% of the Company's sales in 2000, down from 68.1% in 1999.

Over 97% of the Company's products are sold in the United States. The Company sells skin care products in Australia and dental products in Spain and Canada. International sales are not material at this time and represented 1.5% in 2000.

Cost of sales was $571,883 for 2000, a decrease of $733,718 or 56.2% from $1,305,601 in 1999. The cost of sales decrease reflects 1) lower overall sales and 2) a shift in sales from lower margin television sales (61%) to high margin catalog sales (83%). In addition, cost of sales in 2000 reflected a one-time savings of $175,000 when a packaging contract was favorably renegotiated. The Company monitors its inventory levels closely and writes-down any inventory in excess of one-year supply. Inventories are valued at the lower of cost or realizable value on a FIFO basis. Cost of sales was 25.9% of total sales in 2000 compared to 49.0% in 1999.

The Company reflected an inventory write-down of $794,362 in 1999 that represented 31% of net sales for 1999. There was no corresponding write-down of inventory for 2000. The write-down to net realizable value represents components and finished goods of product that the Company deems excess based on current sales levels or does not plan to continue marketing in the future.

Substantially all of the inventory components and finished goods written down resulted from the conversion to HSN from QVC as the primary channel of distribution, or were purchased and/or manufactured prior to September 1997. The write-down applies primarily to components and finished goods outside of the traditional skin care product line, such as hair care, sun care, and bath and body products. The Company will make every effort to recoup as much value as possible as it examines various means of liquidating the current excess. Of the excess, approximately $73,000 of the inventory was sold.

As a result of the above factors, the Company's overall gross profit margin increased to 74.1% of net sales for 2000 versus 21.2% for 1999.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Royalty expenses in 2000 were $103,558, representing a decrease of $38,416, or 27.1%, from royalty expenses of $141,974 in 1999. Royalties for 1999 included royalties due under the QVC agreement. The decrease in 2000 is

generally commensurate with the decrease in gross sales for the Company in 2000 when QVC royalties are excluded. These expenses are related primarily to the GPS Agreement with Hydro-Med and pertain to the use of the Hydron(TM) polymers as a formula ingredient for many of the Company's products.

Research and Development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, develop and package the products for commercial sale, perform appropriate efficacy and safety tests, and conduct consumer panel studies and focus groups. R&D expenses in 2000 were $84,108, a decrease of $127,848, or 60.3%, from R&D expenses of $211,956 in 1999. In changing to a new electronic retailer, the Company's first priority was to establish the core line with the new TV audience. The need for new product introduction is more important for the second year and beyond. The amount of R&D expenses per year varies, depending on the nature of the development work during each year, aw well as the number and type of products under development at such time.

Selling, general, and administrative ("SG&A") expenses in 2000 were $1,927,933, representing a decrease of $236,574 or 10.9%, from SG&A expenses of $2,164,507 in 1999. This decrease is the result of: 1) lower marketing and promotional expenses ($123,000), 2) reduced expenses related to outside consultants ($103,000), 3) reduced expenses for warehouse rent since September ($56,000), and 4) reduced insurance premiums ($47,000). These cost reductions were partially offset by 1) increased Catalog postage and handling associated with attracting new customers ($44,000), and 2) increased MIS expenses required for Catalog sales growth, including Hydron(TM) Website redesign ($41,000).

There were no employment contract settlement costs in 2000, a 100% decrease from employment contract settlement costs of $620,099 for 1999. These costs related to the settlement terms and associated legal fees regarding several employment contracts. These contracts, which originated during 1993 and 1994, overburdened the Company's operations during a period when the Company's revenues could not support the contracts. The Company does not currently have any employment contracts.

Interest and investment income in 2000 was $20,945, a decrease of $59,915, or 74%, from interest income of $80,860 in 1999, due primarily to lower cash balances resulting from the factors discussed above. The Company maintains a conservative investment strategy, deriving investment income primarily from U.S. Treasury securities.

The Company had a net loss for 2000 of $923,632, a reduced loss of $2,050,510, or 69% from the net loss of $2,974,142 for 1999, primarily as a result of the factors discussed above.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources

The Company's working capital was approximately $ 532,729 at December 31, 2002, including cash and cash equivalents of approximately $291,136. Cash used by operating activities was $203,117 and $22,814 was invested in patents. This was offset by proceeds from financing activities of $350,000.

The Company does not have any material debt, long-term capital leases, or long-term operating leases. The lease on the current office facility expires August 31, 2004 and the Company expects to renew the lease on a short-term basis. There are no capital expenditures under constructs and no long-term

commitments other than royalty payments under an agreement with GP Strategies Corporation (See note 5 to Financial Statements). The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

The Company completed a non-brokered private placement of 1,750,000 Units at $.20 per Unit ($350,000), on December 10, 2002 to several accredited investors. Each Unit is comprised of one share of common stock and one three-year option to buy one additional common share at $.20.

The Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis. The ability of the Company to continue as a going concern is dependent upon increasing sales, managing operating expenses, and obtaining additional equity financing.

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

- Licensing proprietary and possibly patentable technologies, including skin and tissue oxygenation and the acne ingredient delivery system, where appropriate to third party companies.

- Continued emphasis on Catalog sales, including sales made over the internet, since these sales have higher profit margins and represent markets for the Company that are growing more rapidly than the Company's traditional television market.

- Increased use of direct marketing techniques to reach new and current consumers such as print promotions mailed to targeted consumers, Web site specials, promotions to other Web site customers, and direct E-mail promotions to new customers.

- Addition of new revenue streams through expanded international distribution achieved through the use of distribution agreements with foreign and international distributors.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

- Development, acquisition and marketing of new product lines based on proprietary technologies that appeal to the aging baby boomers as well as the new generation.

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

- Regarding new products and markets, the Company will continue to develop proprietary technology that it believes will improve its long-term success in the skin care business, such as the acne ingredient delivery system. The Company's Super Oxygenated fluid and composition technology should allow significant advances in skin care products and open application and licensing opportunities beyond the skin care category.

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

agreements with third parties which have greater financial resources than those of the Company and that can enhance the Company's product introductions with appropriate national marketing support programs.

There can be no assurances that Management's Plan will be successful and the Company's actual results could differ materially. No estimate has been made should Management's plan be unsuccessful.

Change in Accounting Principle and New Accounting Pronouncements

In April 2002, the FASB issued SFAS 145, Rescission of FASB Statement No. 4,44, and 64, Amendment of the FASB Statement No. 13, and Technical Corrections. SFAS 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of FASB No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of FASB 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. The provisions of SFAS 145 related to lease modifications is effective for transactions occurring after May 15, 2002. The adoption of SFAS 145 did not have a material impact on the Company's financial position.

In November 2002, the FASB issued FASB interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and disclosure Requirements for Guarantees, including indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product

warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of FIN 45 are effective for financial statements for interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's financial position or on its results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" - an amendment of FASB Statement No. 123 "Accounting and Disclosure of Stock-Based Compensation". SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No.148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements of SFAS No. 148 have been implemented in Note 1 and Note 10 to the accompanying financial statements, and the interim reporting requirements will be adopted in the first interim period in 2003. We have not determined whether we will undertake a change to the fair value method in the near future. As our supplemental disclosure in Note 1 and Note 10 indicates, our adoption of the fair value provisions of SFAS No. 123 would not have a negative effect on our Consolidated Income Statements.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"),

"Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 did not have a material impact on the Company's financial position or on its results of operations.

Shipping and handling billings and costs have been reclassified in the 2002, 2001, and 2000 financial statements to conform to the provisions of Emerging Issues Task Force No. 00 -10, "Accounting for Shipping and Handling Fees and Costs". These reclassifications have no effect on reported net income. In 2002, 2001, and 2000 the Company reclassified $143,149, $147,404, and $122,379 respectively, of shipping fees to Net sales and $174,911, $171,180, and $121,405 respectively, to cost of sales. Selling, general and administration expenses were reduced accordingly.

The effect of inflation has not been significant upon either the operations or financial condition of the Company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Cautionary Statement Regarding Forward Looking Statements

The statements contained in this Report on Form 10-K that are not purely historical are forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectations, hopes, intentions, beliefs or strategies regarding the future, including, without limitation, it's plans regarding distribution and marketing of it's products and the development, acquisition and marketing of new products. Forward looking statements include the Company's liquidity, anticipated cash needs and availability, and the anticipated expense levels under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward looking statements included in this document are based on information available to the Company on the date of this Report, and the Company assumes no obligation to update any such forward looking statement. It is important to note that the Company's actual results could differ materially from those expressed or implied in such forward-looking statements.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, investments, intangible assets, income taxes, restructuring, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Allowance for Sales Returns

Hydron records product sales when persuasive evidence of an arrangement exists, shipment has occurred, the price to the buyer is fixed or determinable and collectibility is reasonably assured. Catalog sales are sold on a cash basis with a 30-day guarantee. Returns have been less than $10,000 annually for the last five years. A provision is made at the time sales are recognized for the estimated cost of product warranties. Private label sales are sold on account and are collected in 30 to 45 days. If there is a production or packaging problem, the Company would correct the problem and replace the product sold. To minimize that possibility, the Company inspects all production batches before they are packaged to insure quality, effectiveness, and consistency.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Inventory Valuation

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

Packaging changes are planned far in advance in order to limit the impact of out-dated or obsolete components. Private label customers are required to prepay the cost of packaging materials in order to take advantage of volume discounts and protect the Company from any sudden packaging changes.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial Statements

The following financial statements required by Item 8 follow Item 14 of this Report:

All financial schedules are omitted since the required information is not present, is not in significant amounts sufficient to require submission of the schedules or because the information required is included in the Consolidated Financial Statements or notes thereto.

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Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K (continued)

(a)(3) Exhibits

3.1 Restated Certificate of Incorporation of Dento-Med Industries, Inc. ("Dento-Med"), as filed with the Secretary of State of New York on March 4, 1981.(1)

3.2 By-laws of the Company, as amended March 17, 1988.(2)

3.3 Certificate of Amendment of the Restated Certificate of Incorporation of Dento-Med, as filed with the Secretary of State of New York on November 14, 1988 (filed as Exhibit 3.2 therein).(3)

3.4 Certificate of Amendment of the Restated Certificate of Incorporation of Dento-Med, as filed with the Secretary of State of New York on July 30, 1993.(4)

4.0 Non-Qualified Stock Option Plan.(5)

10.50 Consulting Agreement between Charles Fox Associates, Inc. and the Company dated May 20, 1997.(6)

10.51 Personal Appearance Agreement between Mr. Charles Fox and the Company dated May 20, 1997.(6)

10.55 Service Agreement between Lauren Anderson and the Company dated January 1, 1998.(6)

10.56 Specimen of Subscription Agreement and Investment Letter, Private Placement offering completed December 10, 2002.(7)

Marketing and Distribution Agreement between Home Shopping Club LP and the Company dated September 1, 1999(8)

1997 Nonemployee Director Stock Option Plan.(9)

(b) Reports on Form 8-K
-Current Report on Form 8-K, dated November 14, 2002 reporting items 7 and 9.
-Current Report on Form 8-K, dated January 2, 2003 reporting item 5

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(1) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1985.
(2) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1987.
(3) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1988.
(4) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1993.
(5) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1986.
(6) Incorporated by reference to the Company's report on Form 10-K for the year ended December 31, 1997.
(7) Incorporated by reference to the Company's report on Form 8-K (date of report January 2, 2003)
(8) Incorporated by reference to the Company's report on Form 8-K (date of report September 14, 1999), dated September 1, 1999.
(9) Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A for the year ended December 31, 1996.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K (continued)

Other Events; Non-brokered private placement.

Report of Independent Certified Public Accountants

The Board of Directors and Shareholders
Hydron Technologies, Inc.

We have audited the accompanying balance sheets of Hydron Technologies, Inc. as of December 31, 2002 and 2001 and the related statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 2002, 2001, and 2000. These financial statements are the responsibility of the Company's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hydron(TM) Technologies, Inc. at December 31, 2002, 2001, and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company experienced losses from operations in 2002, 2001, and 2000. These matters raise substantial doubt about the

Company's ability to continue as a going concern. Management has implemented direct marketing techniques to increase the more profitable catalog sales, add new customers and take advantage of new channels of distribution (see note 11 to Financial Statements). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 13 to the financial statements, the accompanying 2002, 2001, and 2000 financial statements have been restated.

/s/ DaszkalBolton LLP
Boca Raton, Florida
March 18, 2003

HYDRON TECHNOLOGIES, INC.

Balance Sheets

	December 31,	
	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	$ 291,136	$ 167,0
Trade accounts receivable	40,000	61,4
Inventories	742,529	1,164,2
Prepaid expenses and other current assets	40,007	43,4
Total current assets	1,113,672	1,436,2
Property and equipment, less accumulated depreciation of $552,459 and $534,533 at 2002 and 2001, respectively	9,448	27,3
Deposits	20,817	28,2
Deferred product costs, less accumulated amortization of $5,317,262 and $5,482,021 at 2002 and 2001, respectively	324,613	544,3
Total Assets	$ 1,468,549	$ 2,036,1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 133,983	$ 116,5
Royalties payable	127,437	148,9
Deferred revenues	96,390	148,6
Accrued liabilities	223,133	239,0
Total current liabilities	580,943	653,2
Commitments and contingencies	--	
Shareholders' equity		
Preferred stock - $.01 par value	--	

5,000,000 shares authorized; no shares issued or outstanding		
Common stock - $.01 par value	71,103	50,3
30,000,000 shares authorized; 7,110,336 shares 5,035,336 shares issued ; and 7,050,136 shares and 4,975,136 shares outstanding at 2002 and 2001, respectively		
Additional paid-in capital	19,890,587	19,501,8
Accumulated deficit	(18,634,926)	(17,730,0
Treasury stock, at cost; 60,200 shares	(439,158)	(439,1
Total Shareholders' equity	887,606	1,382,9
Total liabilities and shareholders equity	$ 1,468,549	$ 2,036,1

See accompanying notes to financial statements

HYDRON TECHNOLOGIES, INC.

Statements of Operations

	Year ended December 31,		
	2002	2001	2000
Net Sales	$ 1,671,641	$ 2,132,717	$ 2,203,847
Cost of sales	763,358	942,660	571,883
Gross profits	908,283	1,190,057	1,631,964
Expenses			
Royalty expense	--	86,574	103,558
Research and development	68,257	58,322	84,108
Selling, general & administration	1,430,170	1,432,224	1,927,933
Depreciation & amortization	315,724	361,180	463,136
Total expenses	1,814,151	1,938,300	2,578,735
Operating loss	(905,868)	(748,243)	(946,771)
Interest income	1,028	9,198	20,945
Loss on abandonment of lease	--	(19,651)	--
Equity in earnings of joint venture	--	--	2,194
Loss before income taxes	(904,840)	(758,696)	(923,632)
Income taxes expense	--	--	--
Net loss	$ (904,840)	$ (758,696)	$ (923,632)
Basic and diluted loss per share			
Net loss per common share	$ (0.17)	$ (0.15)	$ (0.19)

Weighted average shares outstanding (basic and diluted)	5,201,369	4,975,136	4,975,136

See accompanying notes to financial statements

HYDRON TECHNOLOGIES, INC.

Statement of Shareholders' Equity

	Common Stock		Preferred Stock		Additional Paid-in	Accumu
	Shares	Amount	Shares	Amount	Capital	Defi
Balance at December 31, 1999	5,035,336	$ 50,353	--	--	$ 19,501,837	$(16,0
Net loss	--	--	--	--	--	(9
Balance at December 31, 2000	5,035,336	50,353	--	--	19,501,837	(16,9
Net loss	--	--	--	--	--	(7
Balance at December 31, 2001	5,035,336	50,353	--	--	19,501,837	(17,7
Issuance of Common shares for license agreement	325,000	3,250	--	--	52,000	
Private placement of common shares	1,750,000	17,500	--	--	332,500	
Compensation expense from stock option awards	--	--	--	--	4,250	
Net loss	--	--	--	--	--	(9
Balance at December 31, 2002	7,110,336	$ 71,103	--	--	$ 19,890,587	$(18,6

See accompanying notes to financial statements.

HYDRON TECHNOLOGIES, INC.

Statements of Cash Flows

	Year ended December 31,		
	2002	2001	200

Operating Activities			
Net Loss	$ (904,840)	$ (758,696)	$ (923
Adjustments to reconcile net loss to net cash used by operating activities			
Depreciation and amortization	315,724	361,180	463
Loss on disposal of assets	--	19,651	
Equity in earnings of joint venture	--	--	(2
Compensation expense from stock option awards	4,250		
Change in operating assets and liabilities			
Trade accounts receivables	21,444	74,862	(97
Inventories	421,768	325,099	(51
Prepaid expenses and other current assets	3,443	(3,831)	78
Deposits	7,386	32,198	116
Accounts payable	17,424	(78,232)	67
Deferred revenues	(52,256)	148,646	
Accrued liabilities	(37,460)	(76,051)	(178
Net cash provided (used) by operating activities	(203,117)	44,826	(527
Investing activities			
Capital Expenditures, net	--	(10,133)	
Deferred product costs	(22,814)	(58,572)	
Proceeds from liquidation of joint venture	--	--	64
Net cash provided (used) by investing activities	(22,814)	(68,705)	64
Financing activities			
Proceeds from private placement of 1,750,000 shares of Common Stock	350,000	--	
Net increase (decrease) in cash and cash equivalents	124,069	(23,879)	(462
Cash and cash equivalents at beginning of period	167,067	190,946	653
Cash and cash equivalents at end of period	$ 291,136	$ 167,067	$ 190
Noncash investing and financing activities			
Market value of stock issued for license agreement	$ 55,250	--	

See accompanying notes to financial statements

Hydron Technologies, Inc.

Notes to Financial Statements

December 31, 2002, 2001, and 2000

1. Description of Business and Summary of Significant Accounting Policies

Organization of Business

Hydron(TM) Technologies, Inc. (the "Company") sells consumer and professional products, primarily in the personal care/cosmetics field. The

Company holds the exclusive license with National Patent Development Corporation ("National Patent") to a Hydron(TM) polymer-based drug delivery system for topically applied, nonprescription pharmaceutical products, which the Company intends to use to develop proprietary products or license to third parties. The Company owns U.S. and international patents on a method to suspend the Hydron(TM) polymer in a stable emulsion for use in personal care/cosmetic products.

The majority of the Company's products are sold in the United States directly to the consumer through Catalog sales and the internet, direct response television, and on a minor level internationally through salons and doctors offices.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents includes $277,886 which are covered by the Federal Deposit Insurance Commission.

The Company considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. The credit risk associated with cash equivalents is considered low due to the credit quality of the issuers of the financial instruments.

Concentration of Credit Risk

Trade accounts receivable are due primarily from Reliv International, Inc. and QVC, Inc., which are usually paid to the Company within 30 days after receipt of goods. The Company performs ongoing evaluations of its significant customers and does not require collateral. At December 31, 2002, the entire amount due is from an international broker and is secured by funds in escrow.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market, and include finished goods, packaging, and raw materials.

Long-Lived Assets

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

exceeds the expected future cash flows. As of December 31, 2002, there was no deemed impairment of long-lived assets.

Property and Equipment

Property and equipment, consisting primarily of furniture and equipment, is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from four to six years (see Note 4).

Deferred Product Costs

Deferred product costs consist primarily of costs incurred for the purchase and development of patents and product rights (see Note 5). The deferred product costs are being amortized over their estimated useful lives of eight to twenty years using the straight-line method.

Common Stock, Common Stock Options, and Net Loss Per Share

When the Company issues shares of common stock in exchange for services, an expense is recognized over the period in which the services are rendered. The expense is based upon the fair value of such shares, in accordance with FASB statement No. 123 using a Black-Scholes pricing model, at the date such arrangements are consummated or authorized by the Board of Directors, with a corresponding credit to capital.

1. Description of Business and Summary of Significant Accounting Policies (continued)

The Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its stock options and has adopted the disclosure-only provisions of FASB Statement No. 123, "Accounting and Disclosure of Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the Company's stock option plans.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Account Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. The Company has elected to use the intrinsic value method of accounting for stock compensation in accordance with APB No. 25 and related interpretations. The disclosure provision of Statement No. 148 have been adopted by the Company with appropriate disclosure included in Note 10, Stock Options and Warrants.

Revenue Recognition and Product Warranty

The Company recognizes revenue when

- Persuasive evidence of an arrangement exists
- Shipment has occurred
- Price is fixed or determinable, and
- Collectability is reasonably assured

Subject to these criteria, the Company recognizes revenue at the time of shipment of the relevant merchandise. The Company offers its customers a

thirty-day products warranty and estimates an allowance for sales returns based on historical experience with product returns.

Shipping and Handling Fees

The Company follows the provisions of Emerging Issues Task Force Issue No. 00 -10, "Accounting for Shipping and Handling Fees and Costs." Any amounts billed to third-party customers for shipping and handling is included as a component of revenue. Shipping and handling costs incurred are included as a component of cost of sales.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Cost of Sales

Products are manufactured through third parties under contract and Cost of sales includes the cost of ingredients, packaging material, assembly and processing costs. Inbound freight, internal transfers, and component handling costs are charged to Cost of sales. Costs associated with shipping product to customers is included in cost of sales. The cost of warehousing finished product that is available for sale is included in selling, general, and administrative expenses.

Advertising

Advertising costs are expensed as incurred and are included in "selling, general and administrative expenses." Advertising expenses amounted to approximately $72,000, $77,000, and $192,000, for 2002, 2001, and 2000, respectively.

Reclassifications

Shipping and handling billings and costs have been reclassified in the 2002, 2001, and 2000 financial statements to conform to the provisions of Emerging Issues Task Force No. 00 -10, "Accounting for Shipping and Handling fees and Costa". These reclassifications have no effect on reported net income. In 2002, 2001 and 2000, the Company reclassified $143,149, $147,404, and $122,379, respectively, of shipping fees to Net sales and $174,911, $171,180, $121,405, respectively, of shipping costs to cost of sales. Selling, general, and administrative expenses were reduced accordingly.

2. Fair Value of Financial Instruments

The carrying value of cash, accounts receivables, deposits, accounts payable, and other payables approximates fair value because of their short maturities.

3. Inventories

At December 31, 2002 and 2001, inventories consist of the following:

	2002	2001
Finished Goods	$ 208,748	$ 543,880
Raw materials and components	533,781	620,417
	$ 742,529	$1,164,297

The company's earnings were reduced for excess inventory by $128,893, $154,594 and $0, for the years ended December 31, 2002, 2001 and 2000, respectively.

4. Property and Equipment

At December 31, 2002 and 2001, property and equipment consisted of the following:

	2002	2001
Furniture and equipment	$ 561,907	$ 561,907
Less accumulated depreciation	(552,459)	(534,533)
	$ 9,448	$ 27,374

Depreciation for the year ended December 31, 2002, 2001 and 2000 was approximately $17,926, $74,111, and $175,741 respectively.

5. Deferred Product Costs and Royalty Agreements

From 1976 through 1989, the Company and GP Strategies Corporation (formerly known as National Patent Development Corporation) ("GPS") entered into various agreements, wherein the Company obtained the exclusive worldwide rights to market products using Hydron(TM) polymers in the consumer and oral health fields, the two fields in which the Company has concentrated its research and development efforts, and to utilize the Hydron(TM) polymer as a drug release mechanism in topically applied, nonprescription pharmaceutical products. The Hydron(TM) polymer is the underlying technology in substantially all of the Company's products. GPS has the exclusive worldwide license to market prescription drugs and medical devices using Hydron(TM) polymers. Further, each has the right to exploit products with Hydron(TM) polymers not in the other's exclusive fields. As consideration for product rights obtained, the Company

5. Deferred Product Costs and Royalty Agreements (continued)

issued GPS an aggregate of 220,000 shares of common stock through 1989, valued

at $5,370,000. The valuation for these shares was based on the market prices of the Company's common stock at the dates the agreements were made.

At December 31, 2002 and 2001, deferred product costs consisted of the following:

	2002	2001
Deferred product cost	$ 271,875	$ 406,368
Patent cost	5,370,000	5,620,000
	5,641,875	6,026,368
Less accumulated amoritization	(5,317,262)	(5,482,021)
	$ 324,613	$ 544,347

Amortization for the year ended December 31, 2002, 2001 and 2000 was approximately $ 297,798, $287,069, and $287,395 respectively. Estimated future amortization of intangible assets are as follows:

2003	$ 183,278
2004	23,343
2005	23,343
2006	23,343
2007	12,293
	$ 265,600

Under the terms of the GPS Agreement, the Company and GPS are each required to pay to the other a royalty of five percent (5%) of their respective net sales of Hydron(TM) polymer products, except for sales of non-prescription drug products utilizing the Hydron(TM) polymer as an active ingredient to third parties where the seller receives an up-front license fee, royalty or similar payment where the seller shall pay the other party a royalty of twenty-five percent (25%) of such payments. For the years ended December 31, 2002, 2001 and 2000, the Company has paid or accrued for payment to GPS approximately $0, $87,000 and $104,000, respectively. No royalty expense was required in 2002 as the definition of applicable products was charged, creating a surplus accrual. An aggregate of $127,437 was accrued and unpaid as of December 31, 2002. This amount is adequate to cover any royalties that might be payable through that date. The Company has not received any royalty payments, or been advised of any sales that would entitle them to royalty payments during this period.

5. Deferred Product Costs and Royalty Agreements (continued)

The Company is not dependent on any sole manufacturer except that the Company's ability to obtain additional supply of the Hydron(TM) polymer is dependent on GP Strategies Corporation (formerly known as National Patent Development Corporation) ("GPS") and its assignee, Hydro-Med Sciences, Inc. ("Hydron-Med"), which owns certain proprietary information relating to the

manufacture of the Hydron(TM) polymer. Under the terms of an agreement with GPS, as amended and restated (the "GPS Agreement"), GPS is obligated to supply the Company with up to 3,000 kilograms of the Hydron(TM) polymer for so long as GPS manufactures the Hydron(TM) polymer, and the Company is obligated to purchase its first 3,000 kilograms of Hydron(TM) polymer from GPS. In the event GPS is unable to manufacture and supply the Company with its requested quantity of Hydron(TM) polymer, GPS is obligated to provide the Company with information and assistance regarding all technology and manufacturing procedures (including know-how) possessed by GPS and use in connection with the manufacture of the Hydron(TM) polymer.

The Company is currently negotiating certain changes in the GPS Agreement with Hydro-Med, including the provisions relating to supply of the Hydron(TM) polymer. Hydro-Med has advised the Company that it has disposed of the equipment used in the manufacture of the Hydron(TM) polymer and no longer has the in-house capability of manufacturing the Hydron(TM) polymer. The Company is engaged in discussions with Hydro-Med regarding alternative sources for the Hydron(TM) polymer. See discussion under "Agreement with GPS" below. Although the Company's inventory of the Hydron(TM) polymer is sufficient to satisfy current requirements, the loss of, or significant reduction in, a commercially suitable supply of the Hydron(TM) polymer would have a material adverse effect on the Company and its business.

GPS has assigned its rights under the GPS Agreement to Hydro-Med. In December 2002, the Company and Hydro-Med reached an agreement in principle to amend the GPS Agreement to eliminate their respective obligations to make royalty payments. Under the terms of this agreement in principle, the Company's obligation to pay accrued, but unpaid royalties, would also be eliminated. However, Hydro-Med has requested certain other changes to the GPS Agreement, including changes relating to Hydro-Med's obligation to supply the Hydron(TM) polymer, that are unacceptable to the Company. Accordingly, as of March 31, 2003, the Company has not entered in to a binding agreement to amend the terms of the GPS Agreement.

6. Accrued Liabilities

Accrued liabilities represent expenses that apply to the reported period and have not been billed by the provider or paid by the Company. At December 31, 2002 and 2001, accrued liabilities consisted of the following:

	2002	2001
Dividends payable	$ 83,163	$ 83,163
Director fee payable	50,008	30,004
Legal and audit fees	23,134	68,300
Other	66,828	57,574
	$ 223,133	$ 239,041

7. Significant Customer

The Company sold a substantial portion of its products to Reliv, HSN, and QVC. The percent of the Company's sales for the years ended December 31,

2002, 2001, and 2000 and trade receivable balances as of December 31, 2002, 2001, and 2000 are as follows:

	2002	2001	2000
Percent of Sales			
Reliv	9%	20%	0%
HSN	0%	1%	32%
QVC	1%	7%	18%
Trade Receivables			
Reliv	$ --	$ 17,559	$ --
HSN	$ --	$ --	$ 97,186
QVC	$ --	$ 33,041	$ 44,120

Effective March 1, 2001, the Company entered into an agreement with Reliv International, Inc (Reliv) to develop and manufacture a line of private label skin care products to be distributed through Reliv's multi-tier marketing distribution network. Five products were introduced in August 2001, and a sixth product was added in February 2002. The agreement requires minimum product purchases and advance payments to cover packaging and design costs.

8. Income Taxes

The Company accounts for income taxes under FASB Statement No. 109, "Accounting for Income Taxes" (FASB 109). Deferred income tax assets and

8. Income Taxes (continued)

liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. There has been no income tax expense during the three years ended December 31, 2002.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

	2002	2001	2000
Net operating loss carryforwards	$ 7,890,000	$ 7,494,000	$ 7,135,000
Tax credit carry forwards	180,000	180,000	180,000
Other	230,000	465,000	575,000
Deferred tax assets	8,300,000	8,139,000	7,890,000
Less valuation allowance	(8,300,000)	(8,139,000)	(7,890,000)

Total net deferred taxes	$ --	$ --	$ --

FASB 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, Management has determined that an $8,300,000 valuation allowance at December 31, 2002 is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The valuation allowance increased by $161,000, $249,000, and $281,000 in 2002, 2001 and 2000, respectively. At December 31, 2002, the Company has available net operating loss carryforwards of $20,762,000, which will expire beginning in the year 2003 and through the year 2022.

Hydron Technologies, Inc.

Notes to Financial Statements

8. Income Taxes (continued)

The reconciliation of income tax rates, computed at the U.S. federal statutory tax rates, to income tax expense is as follows:

	Year ended December 31,		
	2002	2001	2000
Tax at U.S. statutory rates	-34%	-34%	-34%
State income taxes, net of federal tax benefit	-4%	-4%	-4%
Valuation allowance adjustments	38%	38%	38%
	0%	0%	0%

9. Stock Options and Warrants

The number of shares of common stock reserved for issuance was 2,036,100 for December 31, 2002 and 261,100 for 2001. This includes 1,750,000 shares for the private placement subscription agreements completed December 10, 2002.

1997 Nonemployee Director Stock Option Plan

During 1997, the Company adopted the 1997 Nonemployee Director Stock Option Plan. Such plan provides grants of stock options to nonemployee directors of the Company to purchase an aggregate of 100,000 shares of the Company's common stock.

Each nonemployee director shall be granted an option to purchase 2,000 shares of the Company's common stock on each May 1st throughout the term of this plan at exercise prices equal to the average of the fair market value of the Company's common stock during the ten business days preceding the date of the grant. In addition, each nonemployee director who sits on a committee of the Board of Directors shall be granted an option to purchase 500 shares of the

Company's common stock under the same pricing arrangements as above. Subject to certain exceptions, no options granted under this plan shall be exercisable until one year after the date of grant.

During August 1999, the Company agreed to increase the annual May 1st grant to the Board Members from 2,000 to 20,000 shares of the Company`s common stock, subject to shareholders' approval at the next annual meeting. Since the options have been granted pending shareholders' approval, the options are reflected as outstanding as of December 31, 2002. These options expire five years from the date of grant and all outstanding options are exercisable at December 31, 2002. There are no options available for grant under this plan at December 31, 2002. Activity with respect to these plans is as follows:

Hydron Technologies, Inc.

Notes to Financial Statements

9. Stock Options and Warrants (continued)

	Number of Options/ Warrants	Price Per Share	Weighted Average Exercise Price
Outstanding at December 31, 1999	240,000	$ 0.53 to 23.91	$ 2.06
Stock options granted	8,000	0.37	0.37
Stock options expired	(30,000)	0.64 to 23.91	6.53
Outstanding at December 31, 2000	218,000	0.37 to 12.50	1.38
Stock options granted	--	--	--
Stock options expired	(11,500)	0.53 to 12.50	8.86
Outstanding at December 31, 2001	206,500	0.37 to 3.53	0.96
Stock options granted	81,000	0.20 to 0.43	0.32
Stock options expired	(64,000)	0.31 to 3.53	1.34
Outstanding at December 31, 2002	223,500	$ 0.20 to 2.42	$ 0.62

The Board of Directors has approved the issuance of an additional 353,500 options, subject to the approval of a stock option plan amendment at the next shareholders' meeting. These options have not been reflected as of December 31, 2002 calculations since there are insufficient options available without the shareholders actions.

Other Options and Warrants

The Company completed a non-brokered private placement of 1,750,000 Units at $.20 per Unit ($350,000), on December 10, 2002 to several accredited investors. Each Unit is comprised of one share of common stock and one three-year option to buy one additional common share at $.20. As of December 31, 2002 all 1,750,000 options are outstanding.

The Company has agreements with several consultants who are to provide financial, business and technical advice to the Company in connection with the research, development, marketing and promotion of its products and other matters. In exchange, these consultants were granted warrants and nonqualified stock options to purchase shares of the Company's common stock at prices representing the fair market value of the shares at the date of grant. Activity with respect to options and warrants granted to these consultants is summarized below:

9. Stock Options and Warrants (continued)

	Number of Options/ Warrants	Price Per Share	Weighted Average Exercise Price
Outstanding at December 31, 2000	150,000	$ 2.50 to 25.00	$ 10.00
Stock options expired	(150,000)	2.50 to 13.75	10.00
Outstanding at December 31, 2001	--		
Stock options granted	25,000	0.22	0.22
Outstanding at December 31, 2002	25,000	$ 0.22	$ 0.22

Research and Development cost for the year ended December 31, 2002 included $5,250 representing the fair value of option granted to the Company's technical consultant.

Pro forma information regarding net income and earnings per share is required by FASB Statement No. 123, which also requires that the information be determined as if the Company had accounted for its stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Risk-free interest rate	4.5%	*	6%
Expected life	5 years	*	5 years
Expected volatility	159%	*	825%
Expected dividend yield	0%	*	5%

*No options were granted in 2001

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price

volatility. Since the Company's stock options have characteristics significantly different than those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in Management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

9. Stock Options and Warrants (continued)

For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The effect of compensation expense from stock option awards on proforma net income reflects only the vesting of 2000, 1999, 1998, 1997, and 1996 awards in 2000, and the vesting of 2002, 2000, 1999, and 1998 awards in 2002 in accordance with Statement No. 123. There were no awards made in 2001. Because compensation expense associated with the stock option award is recognized over the vesting period, the initial impact of applying Statement No. 123 may not be indicative of compensation expense in future years, when the effect of the amortization of multiple awards will be reflected in pro forma net income.

The following table illustrates the effect on the net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock based employee compensation:

	Year ended December 31,		
	2002	2001	2000
Net income, as reported	$ (904,840)	$ (758,696)	$ (923,632)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	$ (12,500)	$ --	$ (1,520)
Pro Forma net income	$ (917,340)	$ (758,696)	$ (925,152)
Basic and diluted loss per share			
As reported	$ (0.17)	$ (0.15)	$ (0.19)
Pro forma	$ (0.18)	$ (0.15)	$ (0.19)

There were no options granted during the year ended December 31, 2001. The weighted average remaining contractual life of all options outstanding at December 31, 2002 was 2.9 years.

Hydron Technologies, Inc.

Notes to Financial Statements

10. Commitments

The Company leases office space under a noncancelable lease agreement, which expires in August 2003. At December 31, 2002, the future minimum rental payments due under this noncancelable lease are $42,300 for the year ending December 31, 2003. Net rent expense was approximately $70,000, $74,900, and $185,000 in 2002, 2001, and 2000, respectively.

11. Quarterly Financial Data (unaudited)

	For the year ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$ 424,686	$ 538,761	$ 332,929	$ 375,265
Operating income (loss)	(194,756)	(198,394)	(204,174)	(308,544)
Net income (loss)	(194,459)	(198,041)	(204,048)	(308,292)
Income (loss) per share	$ (0.04)	$ (0.04)	$ (0.04)	$ (0.05)

12. Management's Plan

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

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

- Licensing proprietary and possibly patentable technologies, including skin and tissue oxygenation and the acne ingredient delivery system, where appropriate to third party companies.

- Continued emphasis on Catalog sales, including sales made over the internet, since these sales have higher profit margins and represent markets for the Company that are growing more rapidly than the Company's traditional television market.

- Increased use of direct marketing techniques to reach new and current consumers such as print promotions mailed to targeted consumers, Web

Hydron Technologies, Inc.

Notes to Financial Statements

12. Management's Plan (continued)

site specials, promotions to other Web site customers, and direct E-mail promotions to new customers.

- Addition of new revenue streams through expanded international distribution achieved through the use of distribution agreements with foreign and international distributors.

- Development, acquisition and marketing of new product lines based on proprietary technologies that appeal to the aging baby boomers as well as the new generation.

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

- Regarding new products and markets, the Company will continue to develop proprietary technology that it believes will improve its long-term success in the skin care business, such as the acne ingredient delivery system. The Company's Super Oxygenated fluid and composition technology should allow significant advances in skin care products and open application and licensing opportunities beyond the skin care category.

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

There can be no assurances that Management's Plan will be successful and the Company's actual results could differ materially. No estimate has been made should Management's plan be unsuccessful.

13. Restatements

Subsequent to filing the Company's Form S-3 on February 11, 2004, the Securities and Exchange Commission requested additional disclosures and reclassifications to be included. These additional disclosures and reclassifications had no effect on the previously reported total assets or net income.

[GRAPHIC OMITTED]

DaszkalBolton LLP
CERTIFIED PUBLIC ACCOUNTANTS

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CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

We hereby consent to the incorporation by reference in the Registration Statements (Forms S-8 Nos. 33-78296, 33-84554, and 33-11765) of Hydron Technologies, Inc. and the related prospectuses of our audit report dated March

18, 2003 with respect to the balance sheets at December 31, 2002 and 2001and statements of operations, changes in shareholder' equity and cash flows of Hydron Technologies, Inc. for the years ended December 31, 2002, 2001 and 2000 in the Form 10-K.

/s/ DASZKAL BOLTON LLP

Boca Raton, Florida
March 18, 2003

Signatures

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

Hydron Technologies, Inc.
(Registrant)

By: /s/ RICHARD BANAKUS

Richard Banakus, Interim President

Date: June 2, 2004

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

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

I, Richard Banakus, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepare;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (March 31, 2003); and

c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;

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

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ RICHARD BANAKUS

Richard Banakus
Chief Executive Officer
June 2, 2004

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Certification of Chief Operating Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and
Item 307 of Regulation S-K

I, Terrence S. McGrath, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepare;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (March 31, 2003); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;

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

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ TERRENCE S. MCGRATH

Terrence S. McGrath
Chief Operating Officer
June 2, 2004

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Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and
Item 307 of Regulation S-K

I, William A. Lauby, certify that:

1. I have reviewed this annual report on Form 10-K of Hydron Technologies,

Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepare;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (March 31, 2003); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;

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

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ WILLIAM A LAUBY

William A. Lauby
Chief Financial Officer
June 2, 2004