HYDRON TECHNOLOGIES INC
Form 10-K
April 19, 2006

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

FORM 10-KSB
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, 2005 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.)

4400 34TH STREET NORTH, SUITE F, ST. PETERSBURG, FL 33714
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (727) 342-5050

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-KSB or any other amendment to this Form 10-KSB. [_]

Indicate by check mark whether the registrant is a shell company accelerated filer (as defined in Exchange Act Rule 12b-2). YES [_] NO [X]

The aggregate market value of the voting stock held by non-affiliates of

the Registrant was $3,713,443 based upon the closing price of $0.53 on April 17, 2006.

Number of shares of Common Stock outstanding as of April 17, 2006: 12,201,936.

No documents are incorporated by reference into this Report except those Exhibits so incorporated as set forth in the Exhibit index.

Transitional Small Business Disclosure Format (Check one): Yes [_]; No [X]

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Hydron Technologies, Inc. ("the Company"), a New York corporation organized on January 30, 1948, maintains its principal office at 4400 34th Street North, Suite F, St. Petersburg, FL 33714 and its telephone number is (727) 342-5050.

During early 2005, the Company returned its focus to the development and sales of its skin care products. For several years prior, the Company's research and development efforts were concentrated on products and medical applications utilizing its patented tissue oxygenation technology, and on accumulating data for a Food & Drug Administration (FDA) application related to this technology. On January 10, 2005, the Company attended a Pre-Investigational Device Exemption meeting with the FDA in the belief that a clear pathway for safety and clinical research requirements could be determined at that time; however, a defined methodology could not be agreed upon at that time. As a result of that meeting, and in consideration of the Company's limited working capital, management decided to refocus its efforts on non-medical technologies. The Company continues to believe that its tissue oxygenation technology has significant potential, and expects to re-institute research and development in that area when working capital allows.

The Company's current focus is on furthering development and sales of its other proprietary products, including a newly patented evaporating emulsifier technology for use in cosmetic treatments and acne products, a number of patented polymer skin care formulas using a moisture-attracting ingredient (the "Hydron(R) polymer") that provide superior skin moisturization benefits and sunscreen delivery, and a patented formula for a wrinkle reduction serum.

Currently, the Company markets a broad range of cosmetic and oral health care products using a moisture-attracting ingredient (the "Hydron(R) polymer") and a topical delivery system for active ingredients including pharmaceuticals. The Company holds U.S. and international patents on, what management believes is, the only known cosmetically acceptable method to suspend the Hydron 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 polymer have the potential for wide acceptance in consumer and professional health care markets.

On July 1, 2005, the Company purchased Clinical Results, Inc. ("CRI"), for two million (2,000,000) shares of the Company's common stock. Through the purchase of CRI the Company has entered the business of proprietary formulations and contract manufacturing for other consumer product companies.

LIQUIDITY

The Company anticipates that present working capital balances and internally generated funds will be sufficient to meet its working capital needs for the next three months and or longer, based on management decisions and order flow. Beyond that point, it may be necessary to sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past

five years and generates a negative cash flow on a monthly basis.

On July 1, 2005, the Company acquired CRI, a St. Petersburg, Florida-based company. CRI is a privately held product development laboratory and contract manufacturer of cosmeceuticals and other personal care products. CRI's clients range from mass-market retailers to marketers of high-end brands, and of certain health food store brands.

Management believes that Hydron Technologies will benefit from lower manufacturing costs, and be better positioned to build its catalog and internet business, as well as expand the sale of its skin care treatments beyond its historical direct response TV and catalog operations, by utilizing CRI's broker network.

Under the terms of the agreement, Hydron Technologies acquired all of the outstanding shares of capital stock of CRI in consideration of an aggregate of two million newly issued shares of the Company, in a transaction exempt from registration under the securities laws. Such shares will be subject to transfer restrictions unless registered under federal and applicable state securities laws or sold in a transaction exempt from registration.

Additionally, Hydron restructured both its management and its Board of Directors. David Pollock, the President of CRI, was appointed Chief Executive Officer of the Company and joined Hydron's Board, replacing Joshua Rochlin, who resigned from the Board on March 31, 2005. Douglas Reitz, D.C., CRI's co-owner, was appointed Executive Vice President of Hydron. As part of the arrangement, the Company entered into a three-year employment agreement with Mr. Pollock and Dr. Reitz, each with an annual salary of $106,000.

Effective August 5, 2005, Terrence S. McGrath, the Company's Chief Operating Officer, resigned in order to pursue other career opportunities. Mr. McGrath's responsibilities were assumed by Mr. Pollock, Hydron's Chief Executive Officer.

While CRI will continue providing contract services for its customer base, Hydron Technologies will benefit from lower manufacturing costs, and be better positioned to expand the sale of its skincare treatments beyond its catalog operations by utilizing CRI's broker network.

In an effort to reduce operating expenses, the Company has consolidated operations by relocating Hydron Technologies' headquarters and certain warehousing facilities to the CRI manufacturing facility. While CRI will continue to provide contract manufacturing services, the Company has renamed the CRI operation as Hydron Technologies. The Company will continue its cost cutting efforts by reducing research and development costs, and cost of goods by manufacturing certain products in-house.

Management anticipates that any impact of the acquisition on cash flow will not be realized for six to nine months. The Company's ultimate ability to attain profitable operations is dependent upon obtaining additional financing or achieving a level of sales adequate to support its cost structure.

Accordingly, there are no assurances that the Company will be successful in achieving the above objectives, or that such objectives, if realized, will enable the Company to obtain profitable operations or continue as a going concern.

HYDRON(R) BRANDED SKIN CARE PRODUCTS

The Company has been developing various consumer products using Hydron polymers since 1986. The Company's products are designed to address concerns about the visible signs of aging, and include Hydron(R) skincare, hair care, bath and body and sun care lines. The Company currently has forty three individual branded products available in the following product catagories: skin care (24 products), hair care (6 products), bath and body (11 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 catalog and web site at www.hydron.com ("Catalog"). The Company also markets a number of customized formulations under private label and contract manufacturing for various outside brands.

Management believes that the Company's moisturizers and skin treatments are unique and offer the following competitive benefits: they 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 independently tested by dermatologist and, in their opinion, are considered to be safe, non-irritating and applicable to most skin types. Products for use around the eye area are also ophthalmologist tested and safe for contact lens wearers. Most of the Company's branded 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(R) 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: it 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 emulsion system also adjusts pH on the skin to match the pH of the stratum corneum, the skin's surface layer. The pH range of the emulsion system is ideal for promoting the skin's natural healing process and enzyme production responsible for rebuilding the skin's lipid barrier. In January 2006, the Company was granted U.S. Patent Number 6,984,391 for its Compositions and Method for Delivery of Skin Cosmeceuticals to cover this technology, which also applies to a new acne treatment system.

PROFESSIONAL PRODUCTS

The Company has also developed and currently markets a group of Hydron polymer-based products for dental professionals under the Hydrocryl(R) 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 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(R) polymer-based products give them competitive advantages over conventional acrylic dentures and denture repair kits, which are not

hydrophilic. Sales of Hydrocryl(R) brand name products were minimal in 2005 and 2004.

DISTRIBUTION

The majority of the Company's products are currently sold in the United States through Hydron direct marketing channels (proprietary Catalog and the World Wide Web site). The Company also sells its products to private label customers 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. Should the Company return to television retailers it will not enter into exclusive agreements.

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 expanded international distribution and new products that would significantly augment Hydron's direct marketing efforts. This includes its recently granted emulsion patent which, among other benefits, can generate new acne formulas that the Company believes provides marked performance improvements versus other over-the-counter products currently on the market.

Catalog Sales - The Company offers personal care products for sale directly to consumers. Augmenting direct mail, the Company sells its products on the World Wide Web and regularly transmits E-mail broadcasts to its customer base. Catalog sales represented approximately 46% of Hydron's total annual sales in 2005 and 69% in 2004. The Company is continuing to explore new ways to enhance Catalog sales and operations.

Private Label Contracting - Since March 1, 2001, the Company has been a supplier to Reliv International, Inc ("Reliv") to develop and manufacture a line of private label skin care products under their brand name, ReversAge(R). Reliv is a public company traded on NASDAQ (symbol RELV). Private label sales represented approximately 16% of Hydron's total annual sales in 2005 and 19% in 2004.

Contract Manufacturing - Through its acquisition of CRI, the Company now manufactures consumer products for a number of companies. Products include proprietary formulations for skin and hair care. During the six months of combined operations ending December 31, 2005, non-Hydron Technologies, Inc. related contract manufacturing revenue represented 30% of Hydron's total sales.

International - The Company sells limited quantities of its products to an Australia-based health and beauty products distributor for retail sale in salon stores and medical offices in Australia and New Zealand. The Company also distributes dental products in Spain and, to a lesser extent, other countries.

Retail - The Company has established minor levels of retail distribution. Initially, utilizing excess inventory and current packaging configurations, the Company has sold product on a limited, promotional basis to several retailers. It is anticipated that any significant retail effort of core Hydron products would require investment in repackaging.

RESEARCH AND DEVELOPMENT

During the last two years, the Company's research and development efforts advanced groundbreaking research into oxygenated wound treatments, healing enhancement, and skin care that may provide anti-aging treatments. Where possible, the Company may license these technologies to other companies with expertise in specific applications. 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.

The Company continues to concentrate research and development on proprietary technology-based products as determined by management's assessment of consumer demand. The Company's research and development efforts during 2004 focused on accumulating data for Food and Drug Administration (FDA) application for the Company's oxygenation application.

Management has completed development of an acne ingredient delivery system. The technology allows for acidic ingredients to be delivered to the skin's stratum corneum 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 treatments that deliver ingredients at pH values as low as 2.0. The Company was granted U.S. patents on this technology in January 2006.

In the current acne market, medicinal treatments can often be more irritating and elicit more redness than the skin condition itself. The Company's new system significantly reduces the harshness and irritation associated with such products.

Prior to June 2005, Charles Fox, a consultant and a former member of the Company's Board of Directors from September 1997 to October 1998, led the Company's research and development efforts. Mr. Fox was formerly director of product development for Warner Lambert Company's personal products division and was a former president of the Society of Cosmetic Chemists.

Beginning on July 1, David Pollock and Dr. Richard Douglas Reitz, the Company's CEO and EVP, respectively, head the Company's R&D effort.

PATENTED TECHNOLOGY

The Company strongly believes that technology and patent protection are essential to providing a sound foundation for a new product. In January 2006, the Company was granted U.S. Patent Number 6,984,391 for its Compositions and Method for Delivery of Skin Cosmeceuticals. This patent covers a unique evaporating emulsifier system that the Company believes is a significant breakthrough in skin care. It is evident in recent skin research that the pH range of the emulsion system is essential in contributing to the skin's natural healing process and the enzyme production responsible for rebuilding the skin's lipid barrier. The benefits provided by this pH self-adjusting system provides clinically proven benefits over competitive products

The Company was granted a U.S. patent on its new super-oxygenation technology in November 2003. This patent covers the process of applying a liquid containing pure oxygen micro-bubbles to the surface of the skin such that the oxygen penetrates the skin and oxygenates the underlying tissue. The Company has applied for international patents on this technology in approximately 29 countries, which are in various stages of review as of December 31, 2005. The Company expects these patent applications to be approved over the next few

years.

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 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 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.

MANUFACTURING AND RAW MATERIALS

Until July 1, 2005, Hydron polymer-based products were manufactured exclusively for the Company by independent third parties. The Company had used principally two manufacturers of cosmetic products because of the quality of their production and reasonable costs. 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.

Since July 1, 2005 the Company is manufacturing the majority of its products at its own facility.

The Company is not dependent upon any sole manufacturer or supplier for any of its raw materials or ingredients.

AGREEMENT WITH VALERA PHARMACEUTICALS ("VALERA")

Under the terms of an agreement with Valera, which was assigned from GP Strategies Corporation ("GPS"), the Company has an exclusive worldwide license to manufacture, market or use non-prescription products that include the Hydron 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 Valera Agreement, Valera retains the exclusive right to manufacture, sell or distribute any prescription drug or medical device made with the Hydron polymer, other than in the oral health field. In addition, under the Valera Agreement, the Company and Valera may each manufacture, sell, and use non-prescription drug products that include the Hydron polymer as an active ingredient, that are not included in their respective exclusive fields.

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

Under the terms of the Valera Agreement, the Company and Valera are each required to pay to the other a royalty of five percent (5%) of their respective net sales of Hydron polymer products, except for sales of certain specified non-prescription drug products utilizing the Hydron polymer as an active ingredient to third parties. Where either party receives an up-front

license fee, royalty or similar payment from non-prescription drug products, that party shall pay the other party a royalty of twenty-five percent (25%) of such payments.

An aggregate of $29,512 and $29,132 was accrued and unpaid as of December 31, 2005 and 2004, respectively. This amount is adequate to cover any royalties that are payable through that date. The Company has not received any royalty payments, or been advised of any sales that would entitle it to royalty payments.

On February 1, 2006 Valera Pharmaceuticals became a publicly traded company through an Initial Public Offering of its common shares. The Company's shares are traded on NASDAQ under the symbol VLRX.

LIMITED LIABILITY PARTNERSHIP

In August 2004, The Company established Hydron Royalty Partners, LLLP, a limited liability limited partnership, to fund the then existing royalty obligations in consideration for the right to receive future royalty receipts from Valera Pharmaceuticals, Inc. Hydron Technologies, Inc., the general partner, assigned its rights in the Valera Agreement to the Partnership. The Partnership assumed the existing liability for prior period royalties ($127,984) and will annually pay the first $30,000 of any future royalties due to Valera through 2008 in return for the right to receive any future royalties that may be due from Valera on their new products. The Company, as general partner, holds 50.001% of the partnership interests, and the limited partnership interests represent in the aggregate the remaining 49.999%.

INVENTORY

The Company did not have any backorder of firm booked orders of Hydron branded product as of December 31, 2005 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'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 business days of the placement of the order.

Most items can be produced within a 45-day period. Since the Company manufacturers products in house and has reduced the lead time for production, the finished goods inventory can be reduced to an average between 3 - 6 months of sales. Packaging components must be printed in larger quantities and the level of those types of items may exceed 12 months of sales. The inventory level of the Hydron polymer exceeds several years'.

GOVERNMENT REGULATION

The Company's oxygenation process uses pure oxygen, which is a natural substance and is not controlled. However, the containers, devices used, and the handling of oxygen require the Food and Drug Administration's approval (FDA). The Company complies with the Federal Food, Drug and Cosmetic 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. Many products and applications that are derived from Hydron's oxygenation technology will be considered medical in nature and FDA approval will be required for this area. New skin care products and most of the Company's existing products are "cosmetics" as that term is defined under the FDC Act. 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 existing products include certain 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 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.

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, 2005, had fifteen full time positions.

ITEM 2. PROPERTIES

The Company currently leases office space at 4400 34th St North, Suites F and H, under two non-cancelable leases in St. Petersburg, Florida, which expire between April and September 2008. The lease on this office space (21,000 square feet) requires a monthly rent of approximately $4,119, including taxes and common area expenses.

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

A Meeting of the Shareholders of the Company was held on November 15, 2004, in Boca Raton, Florida (the "Meeting"). At the Meeting, the shareholders of the Company voted on proposals to (i) elect a Board of four directors to serve until the Company's next meeting of shareholders and until their successors are elected and qualified and approve the Company's 2003 Stock Plan. The results of the voting appointed the following Directors:

Richard Banakus
Joshua Rochlin
Karen Gray
Ronald J. Saul

The Shareholders also approved the adoption of the Company's 2003 Stock

Plan and ratified the Audit Committee's selection of DaszkalBolton LLP as the Company's independent Certified Public Accountants for the year ended December 31, 2004.There was no shareholder meeting held in 2005.

PART II

ITEM 1. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

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
2005		
Fourth Quarter	$0.45	$0.21
Third Quarter	0.50	0.13
Second Quarter	0.14	0.08
First Quarter	0.30	0.15
2004		
Fourth Quarter	$0.45	$0.16
Third Quarter	0.42	0.27
Second Quarter	0.80	0.37
First Quarter	0.82	0.57

As of December 31, 2005, there were approximately 985 shareholders of record of the Company's Common Stock. The number of shareholders of record will decline as the Company's transfer agent has notified the Company of its intent to transfer shares, held in the name of shareholders that it has not been able to locate, to the proper authorities in compliance with state law requirements relating to unclaimed property.

DIVIDENDS AND DIVIDEND POLICY

The Company does not contemplate paying dividends in the near-term. 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.

RECENT SALES OF UNREGISTERED SECURITIES

On December 10, 2002, the Company completed the sale in a non-broker transaction to accredited investors of 1,750,000 units, comprised of one share of Common Stock and one option to purchase one share of Common Stock, at an exercise price of $.20 per share for a three-year period commencing on the date of issuance. The purchase price for each unit was $.20, resulting in gross proceeds to the Company of $350,000.

In addition, on November 14, 2003, the Company completed the sale in a non-brokered transaction to accredited investors of 2,230,000 units, comprised of one share of its Common Stock and one common stock purchase warrant, exercisable for one share of Common Stock at an exercise price of $1 per share, for a five-year period commencing on the date of issuance. The purchase price for each unit was $.50, resulting in gross proceeds to the Company of $1,105,000.

In each case, the Company did not register the sale of the units and the component shares of Common Stock, and options and warrants or the shares of Common Stock issuable upon exercise of the warrants and options under the Securities Act in reliance on the exemption from registration provided by Rule 506 of Regulation D and Section 4(2) of the Securities Act.

In connection with the sales of these units, the Company agreed to register the shares of Common Stock and the shares of Common Stock issuable upon exercise of the warrants and options included in the units. The Company prepared the necessary registration statement and received notice from the Security and Exchange Commission that it was declared effective on July 22, 2004.

The Company has used the proceeds from the sales of these units primarily for certain R&D and other expenses relating to the development of its oxygenation technology, and general working capital requirements.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes share information about the Company's equity compensation plans, including the company's Stock Option Plan ("the Plan") and non-plan equity compensation agreements as of December 31, 2005:

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF REMAINING A FUTURE ISS EQUITY CO PL
Equity compensation plans approved by security holders	1,357,000	$ 0.37	
Equity Compensation plans not approved by security holders	44,500	$ 0.25	
Total	1,401,500	$ 0.36	

(1) The 2003 Stock Plan was approved at the November 15, 2004 shareholders' meeting. The aggregate number of shares that may be issued under the Plan can not exceed 15% of the total outstanding shares. As of December 31, 2004, the number of Securities for future issuance under the 2003 Stock Plan was 751,525 and 64,600 for all previous plans.

EQUITY COMPENSATION PLANS APPROVED BY SHAREHOLDERS

The 1993 Non-Employee Director Stock Option Plan ("1993 Plan") was adopted by the Board of Directors on December 22, 1993, approved by the shareholders on July 19, 1994 and approved, as amended, by the shareholders on December 17, 1997. The purpose of the 1993 Plan is to assist the Company in attracting and retaining key directors who are responsible for continuing the growth and success of the Company. No options were granted under the 1993 Plan during the year ended December 31, 2005

On November 10, 1997, the Board of Directors of the Company adopted the 1997 Non-Employee Director Stock Option Plan ("1997 Plan"). This plan was approved by the shareholders on December 17, 1997. The purpose of the 1997 Plan is to assist the Company in attracting and retaining experienced and knowledgeable non-employee directors who will continue to work for the best interests of the Company.

The 1997 Plan provides nonqualified stock options for non-employee directors to purchase an aggregate of 100,000 shares of Common Stock, with grants of options to purchase 2,000 shares to each non-employee director on October 1, 1997, grants of options to purchase 2,000 shares on each May 1st thereafter (starting in 1999), and grants of options to purchase 2,000 shares upon election or appointment of any new non-employee directors. The options are not exercisable for a one-year period and are to be granted at an exercise price equal to the average fair market value of the Common Stock during the ten business days preceding the day of the grant of the option.

The 1997 Plan also provides nonqualified stock options for non-employee directors who serve on committees of the Board of Directors. The options are not exercisable for a one-year period and are to be granted at an exercise price equal to the average fair market value of the Common Stock during the ten business days preceding the day of the grant of the option. No options were granted under this provision of the 1997 Plan during the year ended December 31, 2005

During August 1999, the Company agreed to grant an option to purchase 18,000 shares of the Company's Common Stock to each of the five individuals comprising the Board of Directors, subject to shareholders' approval at the next annual meeting, at an exercise price of $.64065 per share.

In August 2001, the Company agreed to increase the options granted to Board members each year. Subject to shareholders' approval, the Company agreed to grant options to purchase a total of 20,000 shares of the Company's Common Stock to each of the five individuals comprising the Board of Directors, beginning with the calendar year 2000. Each Board member will receive options to purchase 18,000 shares of common stock at an exercise price of $.20157 for their service in 2000, and options to purchase 20,000 shares of common stock at an exercise price of $.4275 for their service in 2001, $.3155 for their services in 2002, $.2430 for their services in 2003, $.5945 for their services in 2004 and $.1105 for their services in 2005. On November 15, 2004, the Shareholders' approved a new 2003 Stock Plan that ratified these actions by the Board of Directors.

On November 19, 2003, the Board approved, subject to shareholder approval, the 2003 Stock Plan (the "2003 Plan"). The shareholders approved this plan on November 15, 2004. The 2003 Plan permits the grant of nonqualified and incentive stock options, as well as restricted stock purchases. The form of the equity is left up to the discretion of the committee of the Board (or the Board, if no committee) at the time of each grant. This 2003 Plan is designed to consolidate and replace two Stock Option Plans, which have expired; the 1993

Stock Option Plan and the 1997 Non-Employee Director Stock Option Plan. The purpose of the 2003 Plan is to assist the Company in attracting, retaining, and motivating key employees, officers, directors, and consultants by offering selected individuals an opportunity to acquire a proprietary interest in the success of the Company.

EQUITY COMPENSATION PLANS NOT APPROVED BY SHAREHOLDERS

The Company has agreements with several consultants who provide financial, business, and technical advice to the Company in connection with the research, development, marketing and promotion of its products and other matters. As part of their compensation, 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.

ITEM 2. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING INFORMATION

The following discussion and analysis of the Company's financial condition and results of operations should be read with the condensed consolidated financial statements and related notes contained in this annual report on Form 10-KSB ("Form 10-KSB"). All statements other than statements of historical fact included in this Form 10-KSB are, or may be deemed to be, 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. These statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different than any expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: 1. General economic factors including, but not limited to, changes in interest rates and trends in disposable income; 2. Information and technological advances; 3. Cost of products sold; 4. Competition; and 5. Success of marketing, advertising and promotional campaigns. The Company is subject to specific risks and uncertainties related to its business model, strategies, markets and legal and regulatory environment You should carefully review the risks described in this Form 10-KSB and in other documents the Company files from time to time with the SEC. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-KSB. The Company undertakes no obligation to publicly release any revisions to the forward-looking statements to reflect events or circumstances after the date of this document.

OVERVIEW

In late January 2005, the Company refocused its efforts to skin care formulations and sales. On July 1, 2005, the Company purchased CRI, Inc. and BRI, Inc., related companies providing both skin care formulation consulting and a newly started contract manufacturing business. The Company believes that the vertical capabilities added by this acquisition will be beneficial to the Company as it expands beyond its historical base.

In January 2006, the Company was granted U.S. Patent Number 6,984,391 for its Compositions and Method for Delivery of Skin Cosmeceuticals, which also

applies to a new acne treatment system. The Company believes that this unique emulsion system has significant advantages over the widely used surfactant emulsions employed by most skin care formulators and manufacturers, and will seek licensing opportunities whenever possible.

In November 2003, the Company was granted a patent on its new oxygenation technology that provides a method for delivering oxygen into the skin and tissue at depths considered medically therapeutic. This unique technology utilizes topical applications, eliminating reliance on the blood steam. Preliminary research was conducted at the University of Massachusetts and Florida Atlantic University and the process to obtain FDA approval was initiated. Management plans to research additional medical applications if and when Hydron obtains FDA approval.

The Company raised $1.1 million in December 2003 in a non-brokered private placement exempt from registration under the Securities Act to fund the initial research and initiate the lengthy FDA approval process. As research results begin to quantify the broad applications of this technology and the FDA hurdles are passed, management anticipates that Hydron will attract key strategic partners and new investment money will become available. Management also expects that product development will accelerate in medical areas such as wound and burn treatment, and skin care applications such as scar reduction, acne, and diaper rash treatment, oral health, etc.

In 2002 the Company virtually eliminated sales made through television retailers, having terminated the exclusive relationship with HSN in late 2001, and as revenues derived from resales by QVC to prior customers declined. Management expects that in 2005 and beyond, an increasing portion of the Company's skin care sales will be generated from direct marketing utilizing direct response mail, the Company's catalog and web site, and licensing arrangements. Management also expects that the Company will generate an increasing portion of its revenues from sales made through private label partners 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 it believes 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.

In August 2004, Hydron Technologies, Inc. (Hydron), as general partner, formed Hydron Royalty Partners, LLLP (Partners) a Limited Liability Limited Partnership for the purpose of funding existing royalty obligations and a portion of future royalty obligations in consideration of sharing future royalty income that may arise from Hydron's agreement with Valera Pharmaceuticals, Inc. (Valera). Partners has completed a non-brokered private placement of Limited Partnership Interest to ten accredited investors including Hydron's Chairman, Richard Banakus and a Hydron Director, Ronald J. Saul. Each limited partner invested $30,000 or an aggregate of $300,000 for a 49.999% interest in Partners. The establishment of Partners allowed Hydron to meet its current and future royalty obligations and retain the possibility of a significant royalty income stream opportunity.

RESULTS OF OPERATIONS - 2005 VERSUS 2004

Total net sales for 2005 were $1,462,639, an increase of $277,225 or 23% from net sales of $1,185,416 for the year ended December 31, 2004. Catalog Sales net sales for 2005 were $679,901, a decrease of $139,134 or 17% from sales of $819,035 for 2004. Private Label and Contract Manufacturing net sales for 2005 were $667,514, an increase of $438,273 or 191% from sales of $229,241 for 2004. Professional sales consist of dental products sold to dental labs for use

in manufacturing dentures. Net sales of dental products for 2005 were $13,868, a decrease of $4,654 or 25% from sales of $18,522 in 2004. Shipping and handling revenues for 2005 were $97,815, a decrease of $20,802 or 17% from shipping and handling revenues of $118,617 in 2004.

Catalog Sales decreased as the Company transferred its customer care center and upgraded the order taking systems and pick/pack operation in an effort to reduce operational costs. Additionally, the Company began work on the new website, which launched at the end of October of this year. During 2005 the Company went two months without being able to take orders on the Internet, which management feels may have reduced some of the anticipated sales. Private Label Manufacturing sales increased due to the acquisition of Clinical Results, Inc. on July 1, 2005. Clinical Results is in the early stages of its manufacturing facility and has helped contribute to the overall revenue.

Cost of sales was $731,083 for 2005, an increase of $205,766 or 39% from cost of sales of $525,317 for 2004. Cost of sales was 50% of total sales in 2005 compared to 44% in 2004. The increase in the cost of sales percentage reflects the impact of private label sales and an unfavorable inventory valuation adjustment. Cost of sales for private label sales was in direct proportion to the sales level. The Company monitors its inventory levels closely and writes-down any inventory in excess of a one-year supply. Cost of sales include charges of $100,853 in 2005 to adjust inventories to a one-year supply valued at the lower of cost or realizable value on a FIFO basis. Similar charges for 2004 were $59,412. 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. Shipping and handling costs for 2005 were $123,823, a decrease of $6,545 or 5% from shipping and handling costs of $130,368 for the same period in 2004. This decrease reflects the 17% decline in catalog sales plus savings realized by performing more of the shipping and handling tasks in house.

The Company's overall gross profit margin decreased to 50% of net sales for 2005 versus 56% for 2004. This reflects the costs discussed above, less the relative mix of higher margin catalog sales versus lower margin private label sales.

Royalty expenses in 2005 were $36,211 and $36,331 in 2004. An aggregate of $29,512 was accrued and unpaid as of December 31, 2005. This amount is adequate to cover any royalties that are payable through December 2005.

Research and development ("R&D") expenses reflect the Company's efforts to identify new product opportunities, obtain regulatory approval, 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 were $55,037 in 2005, a decrease of $224,928 or 80% from R&D expenses of $279,965 in 2004. This decrease was due principally to the Company eliminating the use of outside FDA consultants in association with its oxygenation technology during 2005 versus 2004. The amount of annual R&D expenses will vary year to year depending on the Company's research requirements.

Selling, general and administrative ("SG&A") expenses in 2005 were $1,358,867, representing an increase of $174,544 or 15% from SG&A expenses of $1,184,323 in 2004. Advertising and promotional expenses in 2005 were $80,729, an increase of $19,098 or 31% from advertising and promotional expenses of $61,631 in 2004. This increase is due to new advertising initiatives taken by the Company to increase sales. Sales commissions in 2005 were $968, a decrease of $10,322 or 91% from sales commissions of $11,290 in 2004. The decreased sales commissions reflect that sales are now handled by non-commissioned sales

representatives. Professional expenses (legal and audit) were $166,032 in 2005, an increase of $42,581 or 34% from the $123,451 incurred in 2004. The increase in professional fees involved costs associated with the acquisition of CRI in 2005 offset by increases from a registration statement filed in July and the proxy statement for the shareholders meeting held November 15, 2004. Payroll expense was $462,973 in 2005, an increase of $21,164 or 5% from $441,809 in 2004. This increase was due primarily to the acquisition of Clinical Results, Inc. on July 1, 2005 which includes new management, office support, the moving of manufacturing and shipping in house, severance expense and operating two offices for two months. Moving expenses were $26,899 in 2005, an increase of $26,899 from $0 in 2004.This increase was due to the relocation of the Company's operations to the Clinical Results, Inc. manufacturing facility. Bad debts in 2005 were $40,560, an increase of $40,560 from $0 in 2004. This increase is due to the write off of certain receivables deemed uncollectible. All other expenses were $580,706 for 2005, an increase of $33,596 or 6% from $547,110 in 2004.

Depreciation and amortization expense was $59,090 for 2005, an increase of $25,173 or 74% from $33,917 in 2004. The increase was due primarily to the amortization of the intangible of the purchase of CRI.

Net interest (expense) was ($29,730) in 2005 compared to net interest income of $3,749 in 2004. The increase in interest expense was due primarily to the interest on the loan payable and related amortization of debt discount.

Minority interest in net loss in 2005 was $35,328 compare to $14,809 in 2004. This minority interest is created from a consolidated limited liability partnership, Hydron Royalty Partners, LLLP, established by the Company in August 2004 (see Limited Liability Partnership, Item 1. Business).

The Company had a net loss of $772,051, representing a decrease of $83,828 or 10% from the net loss of $855,879 for 2004, primarily as a result of the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

The Company anticipates that present working capital balances and internally generated funds will be sufficient to meet our working capital needs for the next three months and maybe longer based on management decisions and order flow. Beyond that point, it may be necessary to sell selected assets, or obtain an infusion of capital. The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis. The Company's working capital deficit was approximately ($188,416) at December 31, 2005, including cash and cash equivalents of approximately $36,281. Cash used by operating activities during the twelve months ended December 31, 2005 was $527,282 and $18,012 was used in investing activities. This was offset by proceeds from financing activities of $241,896.

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.

On October 24, 2005 the Company received proceeds of $112,500 through the partial exercise of certain warrants relating to a previous private placement of its securities in December 2002. These funds were received from three individuals including two individuals who are (i) the Chairman of the Board and Interim President, and (ii) a second director of the Company.

On October 24, 2005, the Board of Directors of Hydron Technologies, Inc., a New York corporation (the "Company"), adopted a resolution authorizing the extension of options of the exercise period for certain options to purchase common stock (the "Options") granted in connection with a private placement of securities by the Company from December 9, 2005 to December 9, 2007 (the "New Expiration Date") in consideration of the agreement of certain holders to immediately exercise a portion of the Options and purchase the underlying common stock. The shares underlying the original Options were registered by the Company under the Securities Act of 1933, as amended (the "Securities Act"). The shares of common stock underlying the Options totaled 1,750,000 shares or approximately 13.4% of the total outstanding shares of the Company.

Richard Banakus, the acting Chairman and a director, and Ronald J. Saul, a director of the Company, together with his spouse, Antonette G. Saul, are among the holders of the Options. Mr. Banakus assigned for nominal consideration certain of his Options exercisable for 250,000 shares to Mr. Saul and effective October 27, 2005 exercised Options representing an aggregate of 250,000 shares of common stock in consideration of the extension of the exercise period to the New Expiration Date for Options representing an aggregate of 750,000 shares of common stock. Mr. Saul exercised Options effective October 28, 2005, representing an aggregate of 250,000 shares and had Options representing an aggregate of 125,000 extended to the New Expiration Date. In addition, certain other holders of Options exercised Options representing an aggregate of 62,500 shares and had the exercise period for Options representing an aggregate of 62,500 shares extended to the New Expiration Date bringing the total number of shares represented by the new Options (the "New Options") exercisable at any time prior to the New Expiration Date to 937,500 or approximately 7.6% of the total outstanding shares.

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Each party receiving New Options is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act"). The Company issued the New Options without registration under the Securities Act in reliance on the exemptions from registration provided by Rule 506 of Regulation D and Section 4(2) of the Securities Act.

The Company received no proceeds for the issuance of the New Options other than proceeds from the exercise of Options pursuant to the agreement of holders of Options to exercise certain Options and proceeds the Company may receive upon exercise of the New Options. The Company intends to use the proceeds of the exercise of the Options and the New Options for general working capital purposes.

On November 14, 2003, the Company completed a non-brokered private placement of 2,210,000 Units at $.50 per Unit ($1,105,000) to accredited investors. Each Unit is comprised of one share of Common Stock and one five-year warrant to buy one additional common share at $1.00. As of December 31, 2005, all 2,210,000 warrants are outstanding.

The Company registered these outstanding shares and the 4,481,500 underlying shares of outstanding warrants/options with the Securities and Exchange Commission effective July 22, 2004. The warrants/options are a future source of capital for the Company and could generate up to $3,106,270 if they are exercised.

The Company does not have any material debt other than the loan payable of $150,000 borrowed from three investors on May 2005 (see Note 11), and two capital leases for equipment purchases of $73,224. Effective August 5, 2005, the Company relocated its offices to St Petersburg, Fl. There are no capital expenditures under construction and no long-term commitments other than royalty

payments under an agreement with Valera Pharmaceuticals, Inc. The Company does not have any lines of credit. There are no purchase order commitments that exceed 90 days.

The Company's independent accountants issued a "going concern" opinion since 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 includes implementing one or more of the following elements:

- Emphasize Catalog sales, including sales made over the Internet, since these sales have higher profit margins.

- Evaluate the possibilities of increasing direct marketing and direct response television exposure to build brand awareness and revenues.

- Team with third parties to build the advertising and promotion of the Hydron(R) brand, as the Company does not have the financial resources to sustain a national advertising campaign to support distribution of its production into retail stores.

- Develop and market new product lines based on the Company's proprietary technologies.

- Continue to reduce overhead and operating costs.

- Obtaining an infusion of capital that will sustain the Company's operation until the newly established licensing arrangements can produce positive cash flow.

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 to the financial statements to account for the possibility that the plan may be unsuccessful.

CHANGE IN ACCOUNTING PRINCIPLE AND NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), a revision to SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The Company will adopt the provisions of SFAS 123R in the first quarter of 2006. The Company believes the adoption of SFAS 123R will result in increased compensation expense in its consolidated statement of operations.

SFAS No. 154, "Accounting Changes and Error Corrections," was issued in May 2005 and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005. The Company does not expect that the adoption of SFAS 154 to have a material impact on the Company's consolidated

financial condition or results of operations.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management 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, management evaluates these estimates, including those related to bad debts, inventories, investments, intangible assets, income taxes, restructuring, and contingencies and litigation. Management bases these estimates on historical experience and on various other assumptions that management believes 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.

Management believes the following critical accounting estimates are significant in preparation of our financial statements.

ALLOWANCE FOR SALES RETURNS

The Company 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, efficacy, and consistency.

INVENTORY VALUATION

Shifting sales from one item in our product line to another or minimum production requirements may create a situation where inventory levels of specific items may exceed the annual sales of that item. This can create inventory levels in excess of net realizable value. Management regularly reviews inventory quantities on hand and, where necessary, records provisions for excess and obsolete inventory based on either estimated forecast of product demand or historical usage of the product. If sales do not materialize as planned or decline below historic levels, management increases the reserve for excess (quantities in excess of one year's sales) and obsolete inventory. This would reduce 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.

ITEM 3. OTHER INFORMATION

None.

ITEM 4. CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Hydron Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Hydron Technologies, Inc. as of December 31, 2005 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hydron Technologies, Inc. as of December 31, 2005, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has a working capital deficiency at December 31, 2005 and has experienced losses from operations in 2005 and 2004. 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 distribution channels (see Note 14 to consolidated Financial Statements). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ DaszkalBolton LLP

Boca Raton, Florida
April 14, 2006

HYDRON TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEET

	As of DECEMBER 31, 2005
ASSETS	
Current Assets	
Cash and cash equivalents	$ 36,281
Restricted cash	112,334
Trade accounts receivable, net	147,130
Inventories	406,164
Prepaid expenses and other current assets	31,193
Total current assets	733,102
Property and equipment, net	136,352
Deferred product costs, net	160,955
Intangible assets, net	222,634
Deposits	7,579
Total Assets	$ 1,260,622
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable	$ 333,398
Loans payable, net	146,700
Royalties payable	29,512
Deferred revenues	134,533
Accrued liabilities	254,727
Current portion of capital leases payable	22,648
Total current liabilities	921,518
Long term liabilities	
Capital leases payable	50,576
Minority interest in consolidated partnership	249,863
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 30,000,000 shares authorized;	

11,926,836 shares issued and outstanding	119,268
Additional paid-in capital	21,126,925
Accumulated deficit	(21,199,712)
Treasury stock, at cost; 10,000	(7,816)
Total Shareholders' equity	38,665
Total liabilities and shareholders equity	$ 1,260,622

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HYDRON TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31, 2005	2004
Net Sales	$ 1,462,639	$ 1,185,416
Cost of sales	731,083	525,317
Gross profit	731,556	660,099
Expenses		
Royalty expense	36,211	36,331
Research and development	55,037	279,965
Selling, general & administration	1,358,867	1,184,323
Depreciation & amortization	59,090	33,917
Total expenses	1,509,205	1,534,536
Operating loss	(777,649)	(874,437)
Interest income (expense) - net	(29,730)	3,749
Loss before income taxes and minority interest	(807,379)	(870,688)
Income taxes	-	-
Minority interest in net loss of subsidiary	35,328	14,809
Net loss	$ (772,051)	$ (855,879)
Basic and diluted loss per share		
Net loss per common share	$ (0.07)	$ (0.09)
Weighted average shares outstanding (basic and diluted)	10,439,817	9,272,789

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HYDRON TECHNOLOGIES, INC.

Consolidated Statement of Changes in Shareholders' Equity

	Common Stock		Preferred Stock		Additional Paid-in	Accumula
	Shares	Amount	Shares	Amount	Capital	Defici
Balance at December 31, 2003	9,320,336	$ 93,203	-	$ -	$ 21,086,237	$(19,571,
Sale of Treasury Stock ...	-	-	-	-	(409,188)	
Compensation expense from stock option awards	-	-	-	-	59,000	
Net loss	-	-	-	-	-	(855,
Balance at December 31, 2004	9,320,336	93,203	-	-	20,736,049	(20,427,
Exercise of stock options	562,500	5,625	-	-	106,875	
Issuance of common shares in lieu of cash for interest on loan payable	44,000	440	-	-	10,560	
Warrants issued in connection with loan payable	-	-	-	-	24,000	
Issuance of Common shares for CRI acquisition	2,000,000	20,000	-	-	240,000	
Compensation expense from stock option awards	-	-	-	-	9,441	
Net loss	-	-	-	-	-	(772,
Balance at December 31, 2005	11,926,836	119,268	-	-	21,126,925	(21,199,

See accompanying notes to consolidated financial statements

HYDRON TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

	YEAR ENDED DECEMBER 31, 2005	2004
OPERATING ACTIVITIES		
Net Loss	$(772,051)	$(855,879)
Adjustments to reconcile net loss to net cash used by operating activities		
Minority Interest	(35,328)	(14,809)
Depreciation and amortization	59,090	33,917
Compensation expense from stock option awards	9,441	59,000
Deferred financing costs	7,470	-
Interest expense	11,000	-
Change in operating assets and liabilities net of assets acquired		
Restricted cash	(112,334)	-
Trade accounts receivable	(110,526)	577
Inventories	88,332	38,036

Prepaid expenses and other current assets	39,059	(32,768)
Deposits	14,224	-
Accounts payable	197,328	48,211
Royalties payable	380	(98,305)
Deferred revenues	43,353	(73,984)
Interest payable	13,230	-
Accrued liabilities	20,050	(5,002)
Net cash used by operating activities	(527,282)	(901,006)
INVESTING ACTIVITIES		
Cash acquired	6,977	-
Purchases of property and equipment	(24,989)	-
Deferred product costs	-	(42,141)
Net cash used by investing activities	(18,012)	(42,141)
FINANCING ACTIVITIES		
Loan payable, proceeds, net	149,249	(4,051)
Payments on capital leases	(19,853)	-
Proceed from exercise of stock options	112,500	-
Proceeds from sale of Treasury Stock	-	22,154
Increase in minority interest of consolidated partnership	-	300,000
Net cash provided from financing activities	241,896	318,103
Net decrease in cash and cash equivalents	(303,398)	(625,044)
Cash and cash equivalents at beginning of period ...	339,679	964,723
Cash and cash equivalents at end of period	$ 36,281	$ 339,679
SUPPLEMENTAL CASH FLOW INFORMATION		
Warrants issued in connection with loans payable	$ 24,000	$ -
Stock issued in acquisition	260,000	-
Stock issued to pay accrued interest	11,000	-

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Hydron Technologies, Inc.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization of Business

Hydron(R) Technologies, Inc. (the "Company") manufactures and sells consumer and professional products, primarily in the personal care/cosmetics field. The Company holds the exclusive license from Valera Pharmaceuticals (VLRX), the assignee of GP Strategies Corporation (formerly National Patent Development Corporation) ("GPS") to a Hydron(R) polymer-based drug delivery system for topically applied, nonprescription pharmaceutical products, which the Company uses to develop proprietary products or to license to third parties. The

Company owns U.S. and international patents on a method to suspend the Hydron polymer in a stable emulsion for use in personal care/cosmetic products.

The Company also owns a patent entitled "Compositions and Methods for Delivery of Skin Cosmeceuticals." This patent covers the Company's unique self-adjusting pH emulsion system.

The Company also owns U.S. and international patents on a method to infuse oxygen into the skin and tissue topically without using the blood stream. The oxygenation technology was submitted to the Food & Drug Administration to obtain the necessary approvals for medical applications; however, at this time, the necessary steps for final approval has not been determined and this project is currently on hold.

The majority of the Company's products are currently sold in the United States through the Company's direct marketing channels (proprietary Catalog and the Web site), and to a lesser extent through salons and doctors' offices, and internationally. The Company also sells its products to private label customers. In addition, the Company manufactures products for a number of other companies on a contract manufacturing basis.

Principles of Consolidation

The consolidated financial statements include the accounts of Hydron Technologies, Inc. and its wholly-owned subsidiary CRI purchased as of July 1, 2005, and its majority owned limited liability limited partnership, Hydron Royalty Partners, LLLP. Hydron Royalty Partners, LLLP (the "Partners") which was established in August 2004 by Hydron, the general partner, and ten limited partners for the purpose of paying outstanding and up to $30,000 annually of future royalties and licensing obligations in return for royalty and licensing payments due from Valera Pharmaceuticals, Inc. The establishment of Partners allowed Hydron to meet its current and future royalty obligations and retain the possibility of a significant royalty income stream opportunity. All significant inter-company transactions have been eliminated.

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

The Company considers all highly liquid investments with an original maturity of three months or less 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.

Cash and cash equivalents includes $36,281 which is covered by the Federal Deposit Insurance Commission.

Restricted cash

At December 31, 2005, the Company had restricted cash of $112,334, which represents funds from a consolidated entity, that are not available for use in the Company's normal operations.

Concentration of Credit Risk

Trade accounts receivable are due primarily from contract manufacturing customers and are usually paid to the Company within 45 days after receipt of goods. The Company performs ongoing evaluations of its significant customers and does not require collateral, although in some cases it requires deposits or advances.

Inventories

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

Long-Lived Assets

The Company 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. The Company recognizes an impairment loss if the carrying value of the asset exceeds the expected future cash flows. During the years ended December 31, 2005 and 2004, there were 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.

Deferred Product Costs

Deferred product costs consist primarily of costs incurred for the purchase and development of patents and product rights (see Note 6). The deferred product costs are being amortized over their estimated useful lives of five to seventeen 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 "Accounting and Disclosure of Stock-Based Compensation." 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.

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. Accordingly, $9,441 in compensation cost has been recognized in the Company's consolidated financial statements with respect to issuances in connection with the Company's stock option plans.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." The Company has elected to continue to use the intrinsic value method of accounting for stock compensation in accordance with APB No. 25 and related interpretations. Had the compensation expense for the stock option plan been determined based on the fair value of the options at the grant date consistent with the methodology prescribed under Statement of Financial Standards No. 123 the Company's net loss and loss per share would have been increased to the proforma amounts indicated below:

	Year ended December 31, 2005	2004
Net loss, as reported	$(772,051)	$(855,879)
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(15,384)	(134,000)
Pro Forma net loss	$(787,435)	$(989,879)
Basic and diluted loss per share		
As reported	$ (0.07)	$ (0.09)
Pro forma	$ (0.07)	$ (0.11)

Revenue Recognition

The Company recognizes revenue when

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

Subject to these criteria, the Company recognizes revenue at the time of shipment of the relevant merchandise. The Company offers its individual consumer customers a thirty-day warranty and estimates an allowance for sales returns based on historical experience with product returns. For the Company's

formulation and contract manufacturing business revenue is recognized when the work is complete and the client approves the formula by written correspondence.

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.

Cost of Sales

Prior to the acquisition of CRI, products were manufactured through third parties under contract and cost of sales included the cost of ingredients, packaging material, assembly and processing costs. Currently, with manufacturing capability, most products are manufactured in house. 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.

Research and Development Costs

Research and development expenditures, consist of costs incurred in performing research and development activities, and are expensed as incurred. For the years ended December 31, 2005 and 2004, expenses charged to Research and Development were $55,037 and $279,965, respectively.

Advertising

Advertising costs are expensed as incurred and are included in "Selling, general and administrative expenses." Advertising expenses amounted to approximately $81,000 and $62,000 for the years ended December 31, 2005 and 2004, respectively.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), a revision to SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The Company will adopt the provisions of SFAS 123R in the first quarter of 2006. The Company believes the adoption of SFAS 123R will result in increased compensation expense in its consolidated Statement of Operations.

SFAS No. 154, "Accounting Changes and Error Corrections," was issued in May 2005 and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most

instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005. The Company does not expect that the adoption of SFAS 154 to have a material impact on the Company's consolidated financial condition or results of operations.

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, 2005, inventories consist of the following:

	2005
Finished goods	$ 76,265
Raw materials and components	620,653
	696,918
Less: inventory valuation allowance	(290,754)
Inventories, net	$ 406,164

The Company's earnings were reduced for surplus inventory in the amounts of $100,853 and $59,412 for the years ended December 31, 2005 and 2004, respectively.

4. ACCOUNTS RECEIVABLES

Accounts receivable consisted of the following at December 31, 2005 and 2004:

	2005	2004
Accounts Receivable	$ 172,130	$ 9,614
Less: Allowance for Doubtful accounts	(25,000)	(0)
Accounts Receivable, Net	$ 147,130	$ 9,614

5. PROPERTY AND EQUIPMENT

At December 31, 2005 and 2004, property and equipment consisted of the following:

	2005	2004

Furniture and equipment	$ 357,365	$ 222,002
Less accumulated depreciation	(221,013)	(209,329)
	$ 136,352	$ 12,673

Depreciation for the year ended December 31, 2005 and 2004 was $11,684 and $4,968, respectively.

6. DEFERRED PRODUCT COSTS

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 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.

The Company was granted U.S. Patent No. 6,984,391 dated January 10, 2006, which is titled "Compositions and Methods for Delivery of Skin Cosmeceuticals." This patent covers the Company's unique self-adjusting pH emulsion system.

At December 31, 2005 and 2004 deferred product costs consisted of the following:

	2005	2004
Deferred product cost	$ 351,818	$ 351,818
Less accumulated amortization	(190,863)	(162,135)
	$ 160,955	$ 189,683

Amortization for the years ended December 31, 2005 and 2004 was approximately $27,571 and $27,296, respectively.

Estimated future amortization of intangible assets are as follows:

2006	$31,264
2007	20,214
2008	16,667
2009	11,746
2010	9,432
thereafter	71,632

7. ACQUISITION

On July 1, 2005, the Company acquired all the outstanding common stock of Clinical Results, Inc. (CRI). As consideration, the Company issued 2,000,000 shares of common stock (fair value of $260,000). The acquisition was accounted

for using the purchase method of accounting. The results of operations are included in the consolidated statements of operations since the date of acquisition. Intangible asset of $241,311 was recorded in this transaction which is being amortized over 3 to 10 years using the straight line method.

The following summarizes the fair value of the assets of CRI acquired and the liabilities of CRI assumed:

Cash	$ 6,977
Accounts receivable	26,990
Inventory	12,500
Prepaid assets	3,062
Deposits	2,216
Property and equipment, net	17,297
Identifiable intangible assets	241,311
Accounts payable	(45,629)
Other liabilities	(4,724)
NET ASSETS	$260,000

Post-acquisition amortization of the identifiable intangible assets for the year ended December 31, 2005 was approximately $18,677. Estimated future amortization of the identifiable intangible assets are as follows:

2006	$35,780
2007	35,780
2008	27,446
2009	19,113
2010	19,113
thereafter	85,402

8. ROYALTY AGREEMENTS

From 1976 through 1989, the Company and GPS entered into various agreements, wherein the Company obtained the exclusive worldwide rights to market products using Hydron polymers in cosmetic and oral health fields, the two fields in which the Company has concentrated its research and development efforts, and to utilize the Hydron polymer as a drug release mechanism in topically applied, nonprescription pharmaceutical products. The Hydron polymer is one of the underlying technologies in many of the Company's skin care products. GPS has the exclusive worldwide license to market prescription drugs and medical devices using Hydron polymers. Further, each has the right to exploit products with Hydron polymers not in the other's exclusive fields.

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 polymer products, except for sales of certain specified non-prescription drug products, utilizing the Hydron polymer as an active ingredient to third parties. Where the seller receives an up-front license fee, royalty or similar payment the seller shall pay the other party a royalty of twenty-five percent (25%) of such payments. GPS has assigned its rights under the GPS Agreement to Valera Pharmaceuticals (formerly known as Hydro-Med Sciences, Inc.) (Valera).

The Company and Valera were discussing possible ways to simplify the GPS Agreement in 2004 but were unable to reach agreement. As a result, the Company assigned its rights under the GPS Agreement to Hydron Royalty Partners, LLLP, a newly created limited liability partnership with the Company as the "General Partner." The partnership assumed the existing liability for prior period royalties ($127,984) and will annually pay the first $30,000 of any royalties due to Valera and, in return, will receive future royalties from Valera.

An aggregate of $29,512 and $ 29,132 was accrued and unpaid as of December 31, 2005 and 2004. For the years ended December 31, 2005 and 2004, the Company's Consolidated Statement of Operations has recorded royalty expenses of approximately $36,000 and $36,000, respectively. The Company has not received any royalty payments, or been advised of any sales that would entitle the Company to royalty income.

9. ACCRUED LIABILITIES

At December 31, 2005, accrued liabilities consisted of the following:

	2005
Dividends payable	$ 83,163
Director fee payable	101,020
Professional fees	32,398
Other	38,146
	$254,727

10. INCOME TAXES

The Company accounts for income taxes under FASB Statement No. 109, "Accounting for Income Taxes" (FASB 109). Deferred income tax assets and 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 two years ended December 31, 2005.

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:

	2005	2004
Net operating loss carryforwards	$ 7,740,973	$ 8,404,000
Tax credit carry forwards	180,000	180,000
Other	181,211	202,000

Deferred tax assets	8,102,184	8,786,000
Less valuation allowance	(8,102,184)	(8,786,000)
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 $8,102,184 valuation allowance at December 31, 2005 is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The valuation allowance decreased by $683,816 in 2005 and increased $376,000 in 2004.

As of December 31, 2005, the Company had an unused net operating loss carryforward of approximately $20,571,280 available for use on its future corporate income tax returns. This net operating loss carryforward begins to expire in December 2006 through 2025. Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of any of the Company's net operation loss and credit carry forwards may be limited if cumulative changes in ownership of more than 50% occur during any three year period.

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, 2005	2004
Tax at U.S. statutory rates	(34%)	(34%)
State income taxes, net of federal tax benefit	(4%)	(4%)
Valuation allowance adjustments	38%	38%
	0%	0%

11. LOAN PAYABLE

On June 14, 2005, the Company borrowed an aggregate of One Hundred Fifty Thousand Dollars ($150,000) (collectively, the "Loans") from three individual lenders (collectively, the "Lenders"), including individuals who are (i) the Chairman of the Board and Interim President, and (ii) a second director of the Company.

In connection with the Loans, the Company issued to each of the Lenders a promissory note in the principal amount of Fifty Thousand Dollars ($50,000) (individually, a "Note" and collectively, the "Notes") providing for (a) quarterly payments of interest at ten percent (10%) per annum and (b) repayment of principal in a balloon payment on the second anniversary of the date of the

Notes. Under the terms of the Notes, the Company may elect to pay quarterly interest to the holders of the Notes in shares of common stock, $.01 par value, of the Company (the "Common Stock"), in an amount calculated by dividing the amount of interest due and payable by ten cents ($.10). The Notes also provide that, in the event of a default by the Company under the Notes, the holders may elect to receive payment of principal and accrued and unpaid interest in shares of Common Stock, in an amount calculated by dividing the amount of principal and accrued and unpaid interest payable by the "Average Market Price" for a share of Common Stock. Under the terms of the Notes, "Average Market Price" means the average closing sale price for a share of Common Stock measured (x) over the last ten trading days of the month preceding the interest payment date or, (y) if no trading in the Common Stock has occurred during such period, the average closing sale price on the last date on which a share of Common Stock was sold in over-the-counter trading in the Common Stock. In the event that no shares of

Common Stock have traded in the over-the-counter market for a period of six months or more, the Average Market Price shall be the fair market price for a share of Common Stock as determined in good faith by the Board of Directors of the Company. In October 2005, the Company elected to pay the accrued interest due on the Notes of $11,040 in stock of the Company and issued 44,000 shares at $.25 to the Note holders. In January 2006, the Company elected to pay the accrued interest due on the Notes of $13,230 in stock of the Company and issued 37,800 shares at $.35 to the Note holders.

In addition, in connection with the Loans, each Lender received a Common Stock Purchase Warrant (collectively, the "Warrants") entitling the holder to purchase One Hundred Thousand (100,000) shares of Common Stock at an exercise price of ten cents ($.10) per share for a five-year period. The warrants were valued using the Black Scholes model at $24,000, which will be amortized as interest expense over the life of the notes.

The Notes and the Warrants each provide that in the event that the Company shall grant "piggy back" registration rights to any other party to cause the Company's Common Stock or any security exercisable or exchangeable for, or convertible into, shares of Common Stock to be included in a registration statement filed by the Company for sale by any selling shareholder or by the Company, the Company will grant the holders of the Notes and Warrants similar registration rights.

Loans Payable consisted of the following:

	2005	2004
Loan Payable	$ 150,000	$ 751
Accrued interest	13,230	-
Less: Deferred financing costs	(16,530)	-
	$ 146,700	$ 751

12. STOCK OPTIONS AND WARRANTS

The number of shares of common stock reserved for issuance was

5,099,000 for December 31, 2005 and 5,575,500 for 2004. This includes 2,210,000 shares for the private placement subscription agreements completed November 14, 2003.

STOCK OPTION PLANS

THE 1993 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

The 1993 Non-Employee Director Stock Option Plan ("1993 Plan") was adopted by the Board of Directors on December 22, 1993, approved by the shareholders on July 19, 1994 and approved, as amended, by the shareholders on December 17, 1997. The purpose of the 1993 Plan is to assist the Company in attracting and retaining key directors who are responsible for continuing the growth and success of the Company. No options were granted under the 1993 Plan during the year ended December 31, 2005

1997 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

During 1997, the Company adopted the 1997 Non-Employee Director Stock Option Plan. Such plan provides grants of stock options to non-employee directors of the Company to purchase an aggregate of 100,000 shares of the Company's common stock. Each non-employee 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 non-employee 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 and committee members from 500 to 5,000. These options expire five years from the date of grant and all outstanding options are exercisable at December 31, 2005. There are 24,000 options available for grant under this plan at December 31, 2005.

2003 STOCK PLAN

On November 19, 2003, the Board approved, subject to shareholder approval, the 2003 Stock Plan (the "2003 Plan"). The shareholders approved this plan on November 15, 2004. The 2003 Plan permits the grant of nonqualified and incentive stock options, as well as restricted stock purchases. The form of the equity is left up to the discretion of the committee of the Board (or the Board, if no committee) at the time of each grant. This 2003 Plan is designed to consolidate and replace two Stock Option Plans, which have expired; the 1993 Stock Option Plan and the 1997 Non-Employee Director Stock Option Plan. The purpose of the 2003 Plan is to assist the Company in attracting, retaining, and motivating key employees, officers, directors, and consultants by offering selected individuals an opportunity to acquire a proprietary interest in the success of the Company.

The Board of Directors had approved the issuance of 943,500 options in prior periods subject to the adoption of a new stock plan at the November 15, 2004 shareholders' meeting. All of these options have been reflected as being

granted in 2004.

Options to purchase 687,000 shares were granted to employees during the year ended December 31, 2005, necessitating adjustments to the pro forma information regarding net income and earnings per share as required by FASB Statement No. 123.

On January 25, 2005, the Board of Directors, by unanimous consent, re-authorized the issuance of 743,500 stock options from the 2003 Stock Plan to Directors and Officers of the Company. Since the original approval date was more than 12 months before the shareholder adoption of the 2003 Stock Plan, the options had to be re-authorized to include them under the plan.

Activity with respect to these plans is as follows:

	Number of Options/ Warrants	Price Per Share	Weighted Average Exercise Price
Outstanding at December 31, 2003 .	221,500	0.20 to 0.92	$0.56
Stock options granted	1,033,500	0.13 to 0.59	0.33
Stock options expired	(39,500)	0.64 to 0.92	0.67
Outstanding at December 31, 2004 .	1,215,500	$0.13 to $0.81	$0.37
Stock options granted	687,000	$ 0.28	0.28
Stock options expired	(670,500)	0.13 to 0.52	0.30
Outstanding at December 31, 2005 .	1,232,000	$0.13 to $0.81	$0.34

OTHER OPTIONS

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.

On October 24, 2005 the Company received proceeds of $112,500 through the partial exercise of certain warrants relating to a previous private placement of its securities in December 2002. These funds were received from three individuals including two individuals who are (i) the Chairman of the Board and Interim President, and (ii) a second director of the Company.

December 31, 2005 and 2004

On October 24, 2005, the Board of Directors adopted a resolution authorizing the extension of the exercise period for certain options to purchase common stock (the "Options") granted in connection with a private placement of securities by the Company from December 9, 2005 to December 9, 2007 (the "New Expiration Date") in consideration of the agreement of certain holders to immediately exercise a portion of the Options and purchase the underlying common stock. The shares underlying the original Options were registered by the Company under the Securities Act of 1933, as amended (the "Securities Act"). The shares of common stock underlying the Options totaled 1,750,000 shares or approximately 13.4% of the total outstanding shares of the Company.

Richard Banakus, the acting Chairman and a director, and Ronald J. Saul, a director of the Company, together with his spouse, Antonette G. Saul, are among the holders of the Options. Mr. Banakus assigned for nominal consideration certain of his Options exercisable for 250,000 shares to Mr. Saul and effective October 27, 2005 exercised Options representing an aggregate of 250,000 shares of common stock in consideration of the extension of the exercise period to the New Expiration Date for Options representing an aggregate of 750,000 shares of common stock. Mr. Saul exercised Options effective October 28, 2005, representing an aggregate of 250,000 shares and had Options representing an aggregate of 125,000 extended to the New Expiration Date. In addition, certain other holders of Options exercised Options representing an aggregate of 62,500 shares and had the exercise period for Options representing an aggregate of 62,500 shares extended to the New Expiration Date bringing the total number of shares represented by the new Options (the "New Options") exercisable at any time prior to the New Expiration Date to 937,500 or approximately 7.6% of the total outstanding shares.

	Number of Options/ Warrants
Outstanding at December 31, 2004	1,750,000
Stock options granted (including extended options) ...	937,500
Stock options exercised	(562,500)
Stock options expired	(1,187,500)
Granted and outstanding at December31,2005	937,500

The Company has agreements with several consultants who provide financial, business and technical advice to the Company in connection with the research, development, marketing and promotion of its products and other matters. As part of their compensation, 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:

Weighted

	Number of Options Warrants	Price Per Share	Average Exercise Price
Outstanding at December 31, 2004 .	150,000	$0.22 to $0.66	$0.56
Stock options granted	19,500	$0.30 to $0.31	0.30
Outstanding at December 31, 2005 .	169,500	0.22 to 0.66	0.53

OTHER WARRANTS

On November 14, 2003, the Company completed a non-brokered private placement of 2,210,000 Units at $.50 per Unit ($1,105,000) to accredited investors. Each Unit is comprised of one share of Common Stock and one five-year warrant to buy one additional Common Share at $1.00. As of December 31, 2005, all 2,210,000 warrants are outstanding.

In June 2005, in connection with the loan payable, each Lender received a Common Stock Purchase Warrant entitling the holder to purchase One Hundred Thousand (100,000) shares of Common Stock at an exercise price of ten cents ($.10) per share for a five-year period. The warrants were valued using the Black Scholes model at $24,000, which will be amortized as interest expense over the life of the notes.

The Company's Statement of Operations for the year ended December 31, 2004 includes $59,000 of research and development cost representing the fair value of options granted to the Company's FDA consultant. For the year ended December 31, 2005, interest expense includes $7,470 representing the amortization of the debt discount.

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, 2005 and 2004:

	2005	2004
Risk-free interest rate	4.3%	4.0%
Expected life	5 years	5 years
Expected volatility	124%	106%
Expected dividend yield	0%	0%

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. As 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.

The weighted average remaining contractual life of all options outstanding at December 31, 2005 was 2.72 years.

13. COMMITMENTS

Lease

The Company leased office space under a non-cancelable lease agreement, which expired in August 2005. Net rent expense under this lease was approximately $30,800 and $66,200 in 2005 and 2004, respectively.

The Company currently leases 21,000 sq feet of office space in under two non-cancelable leases in St Petersburg, Florida which expire between April and September 2008. Rent expense for the year ended December 31, 2005 was approximately $30,000 under these new leases. The Company also leases equipment. Equipment lease expense for the year ended December 31, 2005 was $4,854.

The leased property under capital leases as of December 31, 2005 had a cost of $93,078, and accumulated depreciation of $2,438. Amortization of the leased property is included in depreciation expense.

Future minimum lease payments for these leases at December 31 are as follows:

YEAR ENDING December 31,	CAPITAL LEASES	OPERATING LEASES
2006	$ 31,951	$ 51,712
2007	31,951	78,333
2008	26,060	48,185
2009	-	-
TOTAL MINIMUM LEASE OBLIGATION	89,962	178,230
LESS: INTEREST	(16,738)	-
PRESENT VALUE OF TOTAL MINIMUM LEASE PAYMENTS	73,224	$ 178,230
LESS: CURRENT PORTION	(22,648)	
NON-CURRENT PORTION	$ 50,576	

14. MANAGEMENT'S PLAN

The accompanying condensed financial statements were prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its

liabilities in the normal course of operations.

The Company anticipates that present working capital balances and internally generated funds will be sufficient to meet our working capital needs for the next three months or longer based on management decisions and sales. The Company's independent accountants issued a "going concern" opinion since the Company has incurred significant losses over the past five years and generates a negative cash flow on a monthly basis.

On July 1, 2005, the Company acquired Clinical Results, Inc. (CRI), a St. Petersburg, Florida-based company. CRI is a privately held product development laboratory and contract manufacturer of cosmeceutical and other personal care products. CRI's clients range from mass market retailers to marketers of high end brands, and certain health food store brands.

Management believes that Hydron Technologies will benefit from lower manufacturing costs, and be better positioned to build its catalog and internet business, as well as expand the sale of its skin care treatments beyond its historical direct response TV and catalog operations, by utilizing CRI's broker network.

Under the terms of the agreement, Hydron Technologies acquired all of the outstanding shares of capital stock of CRI in consideration of an aggregate of two million newly issued shares of the Company, in a transaction exempt from registration under the securities laws. Such shares will be subject to transfer restrictions unless registered under federal and applicable state securities laws or sold in a transaction exempt from registration.

Additionally, Hydron restructured both its management and its Board of Directors. David Pollock, the President of CRI, was appointed Chief Executive Officer of the Company and joined Hydron's Board, replacing Joshua Rochlin, who resigned from the Board on March 31, 2005. Douglas Reitz, M.D., CRI's co-owner, was appointed Executive Vice President of Hydron. As part of the arrangement, the Company entered in to a three-year employment agreement with Mr. Pollock and Dr. Reitz, each with an annual salary of $106,000.

Effective August 5, 2005, Terrence S. McGrath, the Company's Chief Operating Officer, resigned in order to pursue other career opportunities. Mr. McGrath's responsibilities were assumed by Mr. Pollock, Hydron's Chief Executive Officer.

In an effort to reduce operating expenses, the Company has consolidated operations by relocating Hydron Technologies' headquarters and certain warehousing facilities to the CRI manufacturing facility. While CRI will continue to provide contract manufacturing services, the Company has renamed the CRI operation as Hydron Technologies. The Company will continue its cost cutting efforts by reducing research and development costs, and cost of goods by manufacturing certain products in-house.

Management anticipates that any impact of the acquisition on cash flow will not be realized for six to nine months. The Company's ultimate ability to attain profitable operations is dependent upon obtaining additional financing or achieving a level of sales adequate to support its cost structure.

Accordingly, there are no assurances that the Company will be successful in achieving the above objectives, or that such objectives, if realized, will enable the Company to obtain profitable operations or continue as a going concern.

15. SUBSEQUENT EVENTS

In January 2006, the Company elected to pay the accrued interest due on the notes as of December 31, 2005 of $13,230 in stock of the Company and issued 37,800 shares at $.35 to the note holders.

On February 3, 2006 the Company received proceeds of $25,000 through the partial exercise of certain warrants. These funds were received from a director of the Company.

On March 29, 2006 the Company received proceeds of $19,535 through the partial exercise of certain warrants. These funds were received from three individuals including two individuals who are (i) the Chairman of the Board and Interim President, and (ii) a second director of the Company.

On March 31, 2006, the Company elected to pay the $21,546 in accrued interest due on the notes as of that date in stock of the Company and issued 37,800 shares at $.57 to the note holders.

PART III

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

As of the end of this period, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to material information required to be included in the Company's Securities Exchange Act of 1934 filings.

Disclosure controls and procedures (as defined in the Exchange Act Rules 13a-14(c) and 15d-14(c)) are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

The Certifying Officer has also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including the Certifying Officer, does not expect that our disclosure controls or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and their can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

IDENTIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS

Listed below are the directors and executive officers of the Company as of December 31, 2005:

Name	Position
Richard Banakus	Director, Chairman of the Board
Karen Gray	Director
Ronald J. Saul	Director
David Pollock	Director, Chief Executive Officer
Douglas Reitz, D.C	Executive Vice President

Business Experience

Richard Banakus, age 59, has served as a director of the Company since June 1995 and as Interim President of the Company since September 19, 1997. From April 1991 to the present, Mr. Banakus has been a private investor with interests in a number of privately and publicly held companies. From July 1988 through March 1991, he was managing partner of Banyan Securities, Larkspur, California, a securities brokerage firm that he founded.

Karen Gray, age 47, has served as a director of the Company since December 1997 and was a consultant to the Company on marketing and communications matters from November 1996 to December 1999. Ms. Gray has over 17 years of management experience in marketing communications in various capacities with various companies. From 1993 to November 1996, Ms. Gray served as Vice President, Corporate Communications, of the Company. From June 1992 to November 1993, Ms. Gray served as President of MarCom Associates, Inc., a marketing communications company that she founded.

Ronald J. Saul, age 58, has served as a director of the company since January 2003. From September 1992 to the present, Mr. Saul has been a financial consultant. From October 1985 through August 1992, Mr. Saul was the Treasurer and Vice President of National Intergroup, a multi company holding company. From

November 1970 to September 1985, Mr. Saul held various accounting and financial positions with National Intergroup Inc. and its predecessor company, National Steel Corporation.

David Pollock age 41, has served as a director of the Company and as CEO of the Company from July 1, 2005 to present. Mr. Pollock is responsible for developing a number of innovative products, including some of the early glycolic and alpha hydroxy acid products, the first mass market Vitamin C line, the number one selling acne system in mass market today, plus products for such brands as SkinCeuticals, Bliss, Shaklee, Ted Gibson, Vogue International, DermaFresh, Keri Lotion, CaliforniaBeauty, Desert Essence and more.

Mr. Pollock's experience in formulating is augmented by his product marketing background as the former Vice President of Product Development for the Home Shopping Network and his senior management position with the Fuller Brush company. Mr. Pollock has been a keynote speaker at various national conferences, written a number of articles for various consumer and trade publications, been a contributing writer to a text book on delivery systems for chemists, currently serves on the Scientific Advisory Committee for CTFA(Cosmetic Toiletries & Fragrance Association) and has served on the board for FCPMA (Florida Cosmetic Pharmaceutical Manufacturers Association).

Dr. Douglas Reitz, Executive Vice President from July 1, 2005 to present. Dr. Reitz has been involved in researching and clinical testing of a number of pain relief, anti-inflammatory, acne, anti-aging/collagen building and breakthrough delivery system technologies. Dr. Reitz brings his knowledge and expertise to HYDRON Technologies, Inc., overseeing research and clinical trials. His undergraduate study was in biochemical engineering and then went on to get his medical degree. He was in private practice for 20 years

DIRECTOR AND OFFICER RESIGNATIONS

Mr. Joshua Rochlin resigned from the Board of Directors of Hydron Technologies, Inc. effective March 31, 2005 due to his increased commitments at Marc Ecko Enterprises. In addition, William A. Lauby resigned his position as Chief Financial Officer effective March 30, 2005 in order to pursue other career possibilities and to be closer to his family. Effective August 5, 2005, Terrence S. McGrath, the Company's Chief Operating Officer, resigned in order to pursue other career opportunities. Mr. McGrath's responsibilities were assumed by Mr. Pollock, Hydron's Chief Executive Officer.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

The Company's officers, directors and beneficial owners of more than 10% of any class of its equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 ("Reporting Persons") are required under the Act to file reports of ownership and changes in beneficial ownership of the Company's equity securities with the Securities and Exchange Commission. Copies of those reports must also be furnished to the Company. Based solely on a review of the copies of reports furnished to the Company pursuant to the Act, the Company believes that during the year ended December 31, 2005 all filing requirements applicable to Reporting Persons were complied with.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth information for the years ended December 31, 2005, 2004 and 2003 with respect to all compensation awarded to, earned by, or paid to the Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. None of the Company's other executive officers received

salary and bonus payments in excess of $100,000 during the year ended December 31, 2005.

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION		
					AWARDS		PAY
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPEN-SATION	RESTRICTED STOCK AWARD(S)	SECURITIES UNDERLYING OPTIONS/SARS	LT PAY
Richard Banakus, Chairman	2005	$ 9,689	-	-	-	-	
	2004	$ 10,530	-	-	-	198,500	
	2003	$ 10,530	-	-	-	-	
Terrence S. McGrath, COO	2005	$ 71,077	-	-	-	-	
	2004	$125,000	-	-	-	425,000	
	2003	$125,000	-	-	-	-	
William A. Lauby, CFO	2005	$ 27,500	-	-	-	-	
	2004	$110,000	-	-	-	225,000	
	2003	$110,000	-	-	-	-	
David Pollock, CEO	2005	$ 53,000	-	-	-	400,000	
	2004	$ -	-	-	-	-	
	2003	$ -	-	-	-	-	
Dr. Douglas Reitz, Executive Vice President	2005	$ 53,000	-	-	-	200,000	
	2004	$ -	-	-	-	-	
	2003	$ -	-	-	-	-	

During 2005, the members of the Board were granted options to purchase 20,000 shares of the Company's common stock for participation on the Company's Board of Directors and an additional 5,000 shares if they were on a Board of Directors committee.

The Board of Directors had approved in prior years the issuance of 198,500 options to Chairman, Richard Banakus, 425,000 options to former COO, Terrence S. McGrath and 225,000 options to former CFO, William A. Lauby, subject to the approval of the 2003 Stock Plan. The shareholders at the November 15, 2004 meeting approved the 2003 Stock Plan. Therefore these options were issued in 2004. The options issued to Mr. McGrath and Mr. Lauby were canceled in 2005 when their employment terminated.

The following table sets forth certain information relating to option exercises effected during the year ended December 31, 2005, and the value of options held as of such date by the Company's Chief Executive Officer and all other persons who were executive officers of the Company and its subsidiaries for the year ended December 31, 2005. The Company does not have any outstanding stock appreciation rights.

AGGREGATE OPTION EXERCISES FOR THE YEAR ENDED DECEMBER 31, 2005 AND YEAR END OPTION VALUES

Name	Shares Acquired On Exercise	Value ($) Realized(2)	Number of securities underlying unexercised options at December 31, 2005 Exercisable/ Unexercisable	Value(1) of unexer In-the-money opti at December 31, 2 Exercisable/ Unexercisable
Richard Banakus	-0-	-0-	1,493,500(3)	$359,975 / $0
David Pollock	-0-	-0-	-0- / 400,000	$0 / $140,000
Douglas Reitz	-0-	-0-	-0- / 200,000	$0 / $70,000

(1) Total value of unexercised options is based upon the closing price ($0.35) of Common Stock as reported by NASDAQ on December 30, 2005.

(2) Value realized in dollars is the amount that the shareholder is deemed to have received as the result of the exercise of options, based upon the difference between the fair market value of the Common Stock as reported by NASDAQ on the date of exercise and the exercise price of the options.

(3) Includes 750,000 unexercised options purchased in the Company's private placement completed December 10, 2002; 200,000 unexercised warrants purchased in the Company's Private Placement completed November 13, 2003; 125,000 options received in a bridge loan agreement with the Company dated August 4, 2003; 100,000 options received in a bridge loan agreement with the Company dated June 14, 2005 and 318,500 options received through the Company's Stock Option Plans.

EMPLOYMENT AGREEMENT

The Company entered in to a three-year employment agreement with David Pollock, Chief Executive Officer of the Company and Dr. Doug Reitz, Executive Vice President of the Company each with an annual employment salary of $106,000.

COMPENSATION OF DIRECTORS

Employees of the Company who also serve as directors are not entitled to any additional compensation for such service, except for Mr. Richard Banakus. Because of his status as Interim President, Mr. Banakus is treated as a non-employee director. The Company does not have a written employment agreement with Mr. Banakus.

Non-Employee directors including Mr. Banakus receive an annual fee of $5,000, accrued quarterly. During 2005, each of Messrs. Richard Banakus, Karen Gray and Ronald J. Saul earned $5,000 for their service as a director, Joshua Rochlin who resigned on March 31, 2005, earned $1,250 as service as a director. As of December 31, 2005, unpaid directors' fees total approximately $101,021.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information as of December 31, 2005 regarding (i) the share ownership of the Company by each person who is known to the Company to be the record or beneficial owner of more than five percent (5%) of the Common Stock, (ii) the share ownership of each director of the Company, (iii) the share ownership of the Chief Executive Officer of the Company and each other most highly paid executive officer of the Company who earned in excess of

$100,000 during the year ended December 31, 2005, and (iv) the share ownership of all directors and executive officers of the Company, as a group (five persons).

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Approximate Percent of Class
Richard Banakus 4400 34th Street North, Suite F St. Petersburg, FL 33714	3,526,040(1)	26.3%
Karen Gray 4400 34th Street North, Suite F St. Petersburg, FL 33714	121,000(2)	1.0%
Ronald J. Saul 4400 34th Street North, Suite F St. Petersburg, FL 33714	1,653,000(3)	13.1%
David Pollock 4400 34th Street North, Suite F St. Petersburg, FL 33714	1,400,000(4)	11.4%
Dr. Douglas Reitz 4400 34th Street North, Suite F St. Petersburg, FL 33714	1,200,000(5)	9.9%
All directors and executive officers as a group (5 persons)	7,900,040(6)	53.2%

(1) Consists of 2,032,540 shares held directly and 1,493,500 shares issuable upon exercise of options and warrants.

(2) Consists of 3,000 shares held directly and 118,000 shares issuable upon exercise of options.

(3) Consists of 928,000 shares held directly and 725,000 shares issuable upon exercise of options.

(4) Consists of 1,000,000 shares held directly and 400,000 shares issuable upon exercise of options and warrants.

(5) Consists of 1,000,000 shares held directly and 200,000 shares issuable upon exercise of options and warrants.

(6) Consists of 4,963,540 shares held directly and 2,936,500 shares issuable upon exercise of options.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

No applicable transactions.

Item 13. Exhibits and reports on Form 8-K

The following documents are filed as a part of this report or are incorporated by reference to previous filings, if so indicated:

(a) EXHIBITS

23.1 Consent of Independent Registered Public Accounting Firm

31.1 Certification of Chief Executive Officer, Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Item 307 of Regulation S-K (filed herewith)

32.1 Certification of Chief Executive Officer, Principal Financial and Accounting Officer Pursuant to 18 U.S.C., Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees billed by the Company's principal accountant, DaszkalBolton LLP.

	2005	2004
Audit fees	$51,200	$29,568
Audit-related fees	-	1,150
Tax fees (Tax compliance and planning)	11,181	7,500
All other fees	-	-
	$62,381	$38,218

Under the procedures of the Company's audit committee, prior to engagement of the Company's auditors to provide audit services and non-audit services, the audit committee considers whether the provisions of such services would be compatible with maintaining the independence of the Company's principal accountants, and has determined that the provision of such services is compatible with such accountants' independence.

SIGNATURES

Pursuant to the requirements 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.

/s/ David Pollock

David Pollock
Chief Executive Officer
Principal Financial and Accounting Officer

Dated: April 19, 2006