

MISONIX INC
Form 10-Q
May 12, 2010

Table of Contents

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2010

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: 1-10986
MISONIX, INC.

(Exact name of registrant as specified in its charter)

New York

11-2148932

(State or other jurisdiction of incorporation or organization)

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

1938 New Highway, Farmingdale, NY

11735

(Address of principal executive offices)

(Zip Code)

(631) 694-9555

(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Edgar Filing: MISONIX INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class of Common Stock	Outstanding at May 12, 2010
Common Stock, \$.01 par value	7,001,369

MISONIX, INC.
INDEX

	Page
<u>Part I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Balance Sheets as of March 31, 2010 (Unaudited) and June 30, 2009</u>	3
<u>Consolidated Statements of Operations Nine months ended March 31, 2010 and 2009 (Unaudited)</u>	4
<u>Consolidated Statements of Operations Three months ended March 31, 2010 and 2009 (Unaudited)</u>	5
<u>Consolidated Statement of Stockholders' Equity Nine months ended March 31, 2010 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows Nine months ended March 31, 2010 and 2009 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4T. Controls and Procedures</u>	23
<u>Part II OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	24
<u>Item 6. Exhibits</u>	24
<u>Signatures</u>	25
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****MISONIX, INC. and Subsidiaries
Consolidated Balance Sheets**

	March 31, 2010	June 30, 2009
	(Unaudited)	(Derived from audited financial statements)
Assets		
Current assets:		
Cash	\$ 9,179,233	\$ 3,415,813
Accounts receivable, less allowance for doubtful accounts of \$348,689 and \$334,399, respectively	2,386,365	3,301,551
Inventories, net	3,329,518	3,678,743
Deferred income taxes	1,028,098	762,429
Prepaid expenses and other current assets	1,186,808	715,589
Current assets of discontinued operations		9,119,435
Total current assets	17,110,022	20,993,560
Property, plant and equipment, net	1,180,191	588,191
Deferred income taxes		128,183
Goodwill	2,028,413	2,016,941
Other assets	1,752,821	757,551
Assets of discontinued operations		10,678,980
Total assets	\$ 22,071,447	\$ 35,163,406
Liabilities and stockholders equity		
Current liabilities:		
Revolving credit facilities	\$	\$ 2,633,059
Notes payable	258,784	261,485
Accounts payable	756,405	690,004
Accrued expenses and other current liabilities	822,888	807,691
Foreign income taxes payable	2,785	10,363
Current maturities of capital lease obligations	14,274	13,523
Current liabilities of discontinued operations		8,809,535
Total current liabilities	\$ 1,855,136	\$ 13,225,660
Capital lease obligations	16,855	27,716
Deferred lease liability	9,654	38,607
Deferred income taxes	405,776	405,776
Deferred income	182,973	201,207
Liabilities related to discontinued operations		280,652

Total liabilities	\$ 2,470,394	\$ 14,179,618
Commitments and contingencies		
Stockholders' equity:		
Misonix, Inc. stockholders' equity:		
Common stock, \$.01 par value - shares authorized 20,000,000; 7,079,169 issued and 7,001,369 outstanding	70,792	70,792
Additional paid-in capital	25,449,237	25,251,412
Accumulated deficit	(5,232,416)	(3,824,003)
Accumulated other comprehensive loss	(340,838)	(348,936)
Treasury stock, 77,800 shares	(412,424)	(412,424)
Total Misonix, Inc. stockholders' equity	19,534,351	20,736,841
Noncontrolling interest	66,702	246,947
Total stockholders' equity	19,601,053	20,983,788
Total liabilities and stockholders' equity	\$ 22,071,447	\$ 35,163,406

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

MISONIX, INC. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	For the nine months ended	
	March 31,	
	2010	2009
Net sales	\$ 9,647,399	\$ 10,750,421
Cost of goods sold	4,867,432	6,239,087
Gross profit	4,779,967	4,511,334
Operating expenses:		
Selling expenses	3,237,194	2,068,519
General and administrative expenses	3,878,095	3,954,159
Research and development expenses	1,387,133	1,057,679
Litigation settlement expenses		(2,000)
Total operating expenses	8,502,422	7,078,357
Operating loss from continuing operations	(3,722,455)	(2,567,023)
Other income (expense):		
Interest income	28,188	37,876
Interest expense	(48,176)	(127,061)
Royalty income and license fees	481,417	464,416
Royalty expense	(83,926)	(16,802)
Recovery of Focus Surgery, Inc. debt	693,044	1,516,866
Other	(52,849)	7,473
Total other income	1,017,698	1,882,768
Loss from continuing operations before income taxes	(2,704,757)	(684,255)
Income tax benefit	(1,088,199)	(496,026)
Net loss from continuing operations	(1,616,558)	(188,229)
Discontinued Operations:		
Net income from discontinued operations, net of tax of \$0 and \$534,889		
Ultrasonics		371,872
Net income from discontinued operations, net of tax of \$32,429 and \$159,012		
Sonora	129,717	219,588
Net income from discontinued operations, net of tax of \$437,968 and \$102,335		
Labcaire	514,477	238,780

Edgar Filing: MISONIX INC - Form 10-Q

Net loss on the sale of Labcaire, net of tax benefit of \$100,163	(195,716)	
Loss on sale of net assets of Sonora, net of tax of \$1,058,100	(174,132)	
Total net income from discontinued operations	274,346	830,240
Net (loss) income	(1,342,212)	642,011
Net income attributable to noncontrolling interest	66,201	13,040
Net (loss) income attributable to Misonix, Inc. shareholders	\$ (1,408,413)	\$ 628,971
Net loss per share from continuing operations attributable to Misonix, Inc. shareholders Basic	\$ (0.24)	\$ (0.03)
Net income per share from discontinued operations Basic	0.04	0.12
Net (loss) income per share attributable to Misonix, Inc., shareholders Basic	\$ (0.20)	\$ 0.09
Net loss per share from continuing operations attributable to Misonix, Inc. shareholders Diluted	\$ (0.24)	\$ (0.03)
Net income per share from discontinued operations Diluted	0.04	0.12
Net (loss) income per share attributable to Misonix, Inc., shareholders Diluted	\$ (0.20)	\$ 0.09
Weighted average common shares outstanding Basic	7,001,369	7,001,369
Weighted average common shares outstanding Diluted	7,001,369	7,001,369

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

MISONIX, INC. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	For the three months ended	
	March 31,	
	2010	2009
Net sales	\$ 3,529,603	\$ 2,724,947
Cost of goods sold	1,597,495	1,487,713
Gross profit	1,932,108	1,237,234
Operating expenses:		
Selling expenses	1,204,150	623,391
General and administrative expenses	1,039,523	1,181,425
Research and development expenses	441,093	359,350
Litigation settlement expenses		(2,000)
Total operating expenses	2,684,766	2,162,166
Operating loss from continuing operations	(752,658)	(924,932)
Other income (expense):		
Interest income	106	2,081
Interest expense	(2,517)	(33,929)
Royalty income and license fees	172,534	148,453
Royalty expense	(18,870)	(300)
Recovery of Focus Surgery, Inc. debt	693,044	
Other	(28,763)	3,312
Total other income	815,534	119,617
Income (loss) from continuing operations before income taxes	62,876	(805,315)
Income tax provision (benefit)	45,845	(582,121)
Net income (loss) from continuing operations	17,031	(223,194)
Discontinued Operations:		
Net income from discontinued operations, net of tax of \$0 and \$333,524		
Ultrasonics		137,382
Net income from discontinued operations, net of tax of \$0 and \$58,677		
Sonora		81,031
Net income from discontinued operations, net of tax of \$0 and \$49,046		
Labcaire		115,744

Edgar Filing: MISONIX INC - Form 10-Q

Loss on sale of net assets of Sonora, net of tax of \$173,024	(257,029)	
Total net (loss) income from discontinued operations	(257,029)	\$ 334,157
Net (loss) income	(239,998)	110,963
Net income (loss) attributable to noncontrolling interest	25,821	(4,504)
Net (loss) income attributable to Misonix, Inc. shareholders	\$ (265,819)	\$ 115,467
Net loss per share from continuing operations attributable to Misonix, Inc. shareholders Basic	\$	\$ (0.03)
Net (loss) income per share from discontinued operations Basic	(0.04)	0.05
Net (loss) income per share attributable to Misonix, Inc., shareholders Basic	\$ (0.04)	\$ 0.02
Net loss income per share from continuing operations attributable to Misonix, Inc. shareholders Diluted	\$	\$ (0.03)
Net (loss) income per share from discontinued operations Diluted	(0.04)	0.05
Net (loss) income per share attributable to Misonix, Inc., shareholders Diluted	\$ (0.04)	\$ 0.02
Weighted average common shares outstanding Basic	7,001,369	7,001,369
Weighted average common shares outstanding Diluted	7,038,385	7,001,369

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

MISONIX, INC. and Subsidiaries
Consolidated Statement of Stockholders Equity
(Unaudited)
Nine months ended March 31, 2010

	Common Stock \$.01 Par Value		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total stockholders equity
	Number of shares	Amount	Number of shares	Amount					
Balance, June 30, 2009	7,079,169	\$ 70,792	(77,800)	\$ (412,424)	\$ 25,251,412	\$ (3,824,003)	\$ (348,936)	\$ 246,947	\$ 20,983,788
Net loss						(1,408,413)		66,201	(1,342,212)
Foreign currency translation adjustment							8,098		8,098
Comprehensive loss									(1,334,114)
Purchase of remaining 5% interest in Sonora								(246,446)	(246,446)
Stock-based compensation					197,825				197,825
Balance, March 31, 2010	7,079,169	\$ 70,792	(77,800)	\$ (412,424)	\$ 25,449,237	\$ (5,232,416)	\$ (340,838)	\$ 66,702	\$ 19,601,053

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

MISONIX, INC. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	For the nine months ended	
	March 31,	
	2010	2009
Operating activities		
Net loss from continuing operations	\$ (1,616,558)	\$ (188,229)
Adjustments to reconcile net (loss) from continuing operations to net cash used in continuing operating activities:		
Depreciation and amortization and other non-cash items	354,851	305,511
Bad debt expense	(6,475)	181,479
Deferred income tax (benefit) expense	(1,078,655)	335,604
Loss on disposal of property, plant and equipment	13,809	
Stock-based compensation	197,825	141,400
Deferred income (loss)	(18,234)	(18,234)
Deferred leasehold costs	(28,953)	(13,911)
Recovery of Focus Surgery, Inc. debt	(693,044)	(1,516,866)
Changes in operating assets and liabilities:		
Accounts receivable	809,209	433,318
Inventories	358,591	333,927
Income taxes	(105,327)	(27,607)
Prepaid expenses and other current assets	(471,220)	(214,987)
Accounts payable and other accrued liabilities	124,677	(1,251,462)
Foreign income taxes payable	(4,184)	
Other assets	(932,008)	(178,744)
Net cash used in operating activities	(3,095,696)	(1,678,801)
Investing activities		
Acquisition of property, plant and equipment	(906,013)	(186,290)
Recovery of Focus Surgery, Inc. debt	693,044	1,516,866
Investment in UKHIFU Limited	(32,411)	(30,721)
Net cash (used in) provided by investing activities	(245,380)	1,299,855
Financing activities		
Proceeds from short-term borrowings	9,514,892	21,020,765
Payments of short-term borrowings	(12,150,652)	(21,392,317)
Principal payments on capital lease obligations	(10,110)	(10,422)
Net cash used in financing activities	(2,645,870)	(381,974)
Cash flows from discontinued operations		
Net cash provided by operating activities	567,283	338,202

Edgar Filing: MISONIX INC - Form 10-Q

Net cash provided by investing activities	12,600,000	
Net cash used in financing activities	(1,400,000)	
Net cash provided by discontinued operations	11,767,283	338,202
Effect of exchange rate changes on cash	(16,917)	29,270
Net increase (decrease) in cash	5,763,420	(393,448)
Cash at beginning of period	3,415,813	1,532,983
Cash at end of period	\$ 9,179,233	\$ 1,139,535

Supplemental disclosure of cash flow information:

Cash paid for:

Interest	\$ 54,677	\$ 254,152
Income taxes	\$ 2,832	\$ 63,763

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010, or any interim period.

The balance sheet at June 30, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2009.

Reclassification

Certain prior period amounts in the accompanying financial statements and related notes have been reclassified to conform to the current period's presentation.

Discontinued Operations

On April 7, 2009, the Company sold the assets of its Ultrasonics Laboratory Products (Ultrasonics) business to iSonix LLC, a wholly owned subsidiary of Sonics and Materials, Inc., for a cash payment of \$3.5 million. The results of operations from the Ultrasonic business are shown net of tax from discontinued operations. Results of Ultrasonics for all periods presented are classified as a discontinued operation.

On August 5, 2009, the Company sold its Labcaire Systems, Ltd. (Labcaire) subsidiary to PuriCore International Limited for a total purchase price of up to \$5.6 million. The Company received \$3.6 million at closing and a promissory note in the principal amount of \$1 million, payable in equal installments of \$250,000 on the next four anniversaries of the closing. The note receivable was discounted over the four years using a 4% imputed interest rate. This rate is consistent with published discounts. The discounted value of the note (\$900,000) is used to determine gain or loss on the sale, and is included in other assets in the consolidated balance sheet. The Company will also receive a commission paid on sales for the period commencing on the date of closing and ending on December 31, 2013 of 8% of the pass through Automated Endoscope Reprocessing (AER) and Drying Cabinet products, and 5% of license fees from any chemical licenses marketed by Labcaire directly associated with sale of AERs, specifically for the disinfection of the endoscope. The aggregate commission payable to the Company is subject to a maximum payment of \$1,000,000. The aggregate commission will have a zero value in determining the current gain or loss on the sale of Labcaire until the commission is paid. As of March 31, 2010, there were no commissions paid. For the nine months ended March 31, 2010, the Company recorded an after tax loss on the sale of Labcaire of \$195,716. Results of Labcaire for all periods presented are classified as discontinued operations.

On October 2, 2009, Acoustic Marketing Research, Inc. d/b/a Sonora Medical Systems (Sonora) sold substantially all of its assets to Medical Imaging Holdings (Medical Imaging), Inc. for a cash payment of \$8,000,000 (subject to a future adjustment based on net working capital at the closing). On April 6, 2010, the Company made an adjustment of \$257,029 to Medical Imaging for the net difference of adjustments of working capital, and the effect of income taxes. These amounts are reflected in discontinued operations in the March 31, 2010 financial statements. The Company also purchased at the closing of such transaction, utilizing \$1,200,000 of the proceeds, the remaining outstanding 5% of Sonora's shares. Sonora is engaged in the business of (i) selling, repairing and servicing new and used diagnostic ultrasound systems and consumable accessories used in conjunction therewith, (ii) selling, repairing, servicing and testing diagnostic ultrasound transducers, (iii) developing and selling equipment for testing ultrasound transducers, (iv) selling equipment used for cleaning and disinfecting ultrasound transducers including, but not limited to, transesophageal echocardiography probes, (v) selling equipment used for testing endoscopic probes, (vi) repairing and

servicing MRI systems and parts and subsystems used therein, and (vii) performing training for the service and maintenance of diagnostic ultrasound and MRI systems, in each instance throughout the world. Results of Sonora for all periods presented are classified as discontinued operations.

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

The following amounts related to the Sonora and Labcaire businesses have been segregated from the Company's continuing operations and are in the consolidated balance sheets:

Sonora

	June 30, 2009
Cash	\$ 175,369
Accounts receivable	1,734,761
Inventory	1,502,076
Other current assets	247,177
Property, plant and equipment - net	816,200
Goodwill	2,924,970
Total assets of discontinued operations	\$ 7,400,553
Accounts payable	\$ 355,962
Accrued expenses and other current liabilities	356,294
Deferred lease	235,894
Other liabilities	44,758
Total liabilities of discontinued operations	\$ 992,908

Labcaire

	June 30, 2009
Cash	\$ 99,840
Accounts receivable	3,622,248
Inventory	1,446,497
Other current assets	291,467
Property, plant and equipment - net	4,142,303
Deferred taxes	1,160,363
Other assets	116,466
Goodwill	1,518,678
Total assets of discontinued operations	\$ 12,397,862
Revolving credit facility	\$ 1,820,891
Accounts payable	1,932,543
Accrued expenses and other current liabilities	2,336,389
Tax payable	785,466
Gain from sale of building	1,054,543
Capital leases	167,447
Total liabilities of discontinued operations	\$ 8,097,279

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

The following represents the results of Ultrasonics, Sonora and Labcaire:

	For the nine months ended		For the three months ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Revenues	\$ 3,923,161	\$ 21,861,938	\$	\$ 6,391,000
Income from discontinued operations, before tax	\$ 1,114,591	\$ 1,626,476	\$	\$ 775,964
Loss on sale of Labcaire	(295,879)			
Gain on sale of Sonora	883,968		(84,005)	
Income tax expense	(1,428,334)	(796,236)	(173,024)	(441,807)
Income from discontinued operations, net of tax	\$ 274,346	\$ 830,240	\$ (257,029)	\$ 334,157

2. Net Income (Loss) Per Share of Common Stock

Basic net income (loss) per common share (basic EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income per common share (diluted EPS) is computed by dividing net income (loss) by the weighted average number of common shares and dilutive common share equivalents outstanding (principally outstanding common stock options) for the period.

The number of weighted average common shares used in the calculation of basic EPS and diluted EPS were as follows:

	For the nine months ended		For the three months ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Basic shares	7,001,369	7,001,369	7,001,369	7,001,369
Dilutive effect of stock options			37,016	
Diluted shares	7,001,369	7,001,369	7,038,385	7,001,369

Excluded from the calculation of diluted EPS are options to purchase 1,649,860 and 1,793,063 shares of common stock for the three months ended March 31, 2010 and nine months ended March 31, 2009, respectively. The excluded shares are any shares in which the average stock price for the quarter or year-to-date is less than the exercise price of the outstanding options in the period in which the Company has net income.

Diluted EPS for the three and nine months ended March 31, 2010 and three and nine months ended March 31, 2009 presented is the same as basic EPS, as the inclusion of the effect of common share equivalents then outstanding would be anti-dilutive. For this reason, excluded from the calculation of diluted EPS all are outstanding options for 1,848,510 and 1,825,213 shares for the nine months ended March 31, 2010 and three months ended March 31, 2009, respectively.

Table of Contents**MISONIX, INC. and Subsidiaries**
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

3. Comprehensive Income Loss

Total comprehensive loss income was \$1,334,114 and \$255,670 for the nine and three months ended March 31, 2010 and \$(29) and \$217,359 for the nine and three months ended March 31, 2009, respectively. The components of comprehensive (loss) income are net income (loss) and foreign currency translation adjustments.

4. Stock-Based Compensation

Stock options are granted with exercise prices not less than the fair market value of our common stock at the time of the grant, with an exercise term (as determined by the committee administering the applicable option plan (the Committee)) not to exceed 10 years. The Committee determines the vesting period for the Company's stock options.

Generally, such stock options have vesting periods of three to four years. Certain option awards provide for accelerated vesting upon meeting specific retirement, death or disability criteria, and upon a change in control. During the three month periods ended March 31, 2010 and 2009, the Company did not grant any options to purchase the Company's common stock. During the nine month periods ended March 31, 2010 and 2009, the Company granted options to purchase 148,300 and 303,150 shares of the Company's common stock, respectively.

Stock-based compensation expense for the nine month period ended March 31, 2010 and 2009 was \$198,000 and \$141,000, respectively. Stock-based compensation expense for the three month period ended March 31, 2010 and 2009 was \$57,000 and \$58,000, respectively. Compensation expense is recognized in the general and administrative expenses line item of the Company's statements of operations on a straight-line basis over the vesting periods. As of March 31, 2010, there was approximately \$497,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 2 years.

There was no cash received from the exercise of stock options for the nine and three month periods ended March 31, 2010 and 2009. Cash flows from tax benefits attributable to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows.

The fair values of the options granted during the periods ended March 31, 2010 and 2009 were estimated on the date of the grant using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions during the respective periods:

	For the nine months ended March 31,		For the three months ended March 31,	
	2010	2009	2010	2009
Risk-free interest rate	3.1%	3.1%		
Expected option life in years	6.5	6.5		
Expected stock price volatility	81.9%	54.5%		
Expected dividend yield	0%	0%		
Weighted-average fair value of options granted	\$ 2.02	\$ 1.14		

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

The expected life was based on historical exercises and terminations. The expected volatility for the expected life of the options is determined using historical volatilities based on historical stock prices. The expected dividend yield is 0% as the Company has historically not declared dividends and does not expect to declare any in the future.

Changes in outstanding stock options during the nine months ended March 31, 2010 were as follows:

		Options		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (a)
Outstanding as of June 30, 2009	1,799,918	5.21	5.4	
Granted	148,300	2.44		
Forfeited	(99,708)	5.10		
Expired				
Outstanding as of March 31, 2010	1,848,510	4.99	5.3	\$ 2,492
Exercisable and vested at March 31, 2010	1,459,948	5.69	4.8	\$ 623
Available for grant at March 31, 2010	959,384			

(a) Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying stock, based on the respective market prices at March 31, 2010 or if exercised, the exercise dates, exceeds the exercise prices of the respective options.

5. Focus Surgery, Inc.

On March 3, 2008, the Company, USHIFU, LLC (USHIFU), FS Acquisition Company and certain other stockholders of Focus Surgery, Inc. (Focus) entered into a Stock Purchase Agreement (the Focus Agreement). The closing of the transactions contemplated by the Focus Agreement took place on July 1, 2008. Pursuant to the Focus Agreement, the

Company sold to USHIFU the 2,500 shares of Series M Preferred Stock of Focus owned by the Company for a cash payment of \$837,500. The Company also received \$679,366, fifty percent (50%) of the outstanding principal and accrued interest of loans previously made by the Company to Focus, with the remaining fifty percent (50%) of such amount of \$679,366 paid on January 4, 2010. Upon collection, payment was recognized as a gain.

Table of Contents**MISONIX, INC. and Subsidiaries**
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

6. Income Taxes

There are no federal, state or foreign audits in process as of March 31, 2010. The Company files state tax returns in New York and Colorado and its tax returns in those states have never been examined. The Company's foreign subsidiaries, Misonix, Ltd. and UKHIFU Limited file tax returns in England. The England Inland Revenue Service has never examined these tax returns.

As of March 31, 2010, the valuation allowance was determined by estimating the recoverability of the deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making this assessment, the ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies in making this assessment. Based on the level of historical income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2010. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are not realized.

7. Inventories

Inventories are summarized as follows:

	March 31, 2010	June 30, 2009
Raw materials	\$ 2,248,643	\$ 2,380,827
Work-in-process	1,357,806	876,918
Finished goods	400,913	1,199,230
	4,007,362	4,456,975
Less valuation reserve	677,844	778,232
	\$ 3,329,518	\$ 3,678,743

8. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

	March 31, 2010	June 30, 2009
Accrued payroll and vacation	\$ 410,637	\$ 378,933
Accrued VAT and sales tax	47,738	30,227
Accrued commissions and bonuses	160,482	245,852
Accrued professional fees	44,174	11,762
Accrued royalty expense	69,458	300
Other	90,399	140,617
	\$ 822,888	\$ 807,691

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

9. **Commitments and Contingencies**

The Company is not party to any pending material claims or lawsuits.

10. **Business Segments**

The Company operates in two business segments which are organized by product types: medical devices and laboratory and scientific products. Medical devices include the AutoSonix ultrasonic cutting and coagulatory system, the Sonablate 500® (used to treat prostate cancer), ultrasonic lithotripter, ultrasonic neuroaspirator (used for neurosurgery), Bone Scalpel, soft tissue aspirator (used primarily for the cosmetic surgery market) and the wound debrider. Laboratory and scientific products includes the Aura ductless fume enclosure and like products. The Company evaluates the performance of the segments based upon income from operations before general and administrative expenses. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 1) in the Company's Annual Report on Form 10-K for the year ended June 30, 2009.

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

Certain items are maintained at the corporate headquarters (corporate) and are not allocated to the segments. They primarily include general and administrative expenses. The Company does not allocate assets by segment. Summarized financial information for each of the segments is as follows:

For the nine months ended March 31, 2010:

	Medical Device Products	Laboratory and Scientific Products	Corporate and Unallocated	Total
Net sales	\$ 7,687,570	\$ 1,959,829	\$	\$ 9,647,399
Cost of goods sold	3,413,693	1,453,739		4,867,432
Gross profit	4,273,877	506,090		4,779,967
Selling expenses	2,857,966	379,228		3,237,194
Research and development expenses	1,137,682	249,451		1,387,133
General and administrative expenses			3,878,095	3,878,095
Total operating expenses	3,995,648	628,679	3,878,095	8,502,422
Operating income (loss) from continuing operations	\$ 278,229	\$ (122,589)	\$ (3,878,095)	\$ (3,722,455)
Net income (loss) from discontinued operations	\$ (44,415)	\$ 318,761	\$	\$ 274,346

For the nine months ended March 31, 2009:

	Medical Device Products	Laboratory and Scientific Products	Corporate and Unallocated	Total
Net sales	\$ 8,466,678	\$ 2,283,743	\$	\$ 10,750,421
Cost of goods sold	4,596,933	1,642,154		6,239,087
Gross profit	3,869,745	641,589		4,511,334
Selling expenses	1,704,396	364,123		2,068,519
Research and development expenses	892,199	165,480		1,057,679
General and administrative expenses			3,952,159	3,952,159
Total operating expenses	2,596,595	529,603	3,952,159	7,078,357
Operating income (loss) from continuing operations	\$ 1,273,150	\$ 111,986	\$ (3,952,159)	\$ (2,567,023)

Edgar Filing: MISONIX INC - Form 10-Q

Net income from discontinued operations	\$	219,588	\$	610,652	\$	830,240
---	----	---------	----	---------	----	---------

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

For the three months ended March 31, 2010:

	Medical Device Products	Laboratory and Scientific Products	Corporate and Unallocated	Total
Net sales	\$ 2,851,439	\$ 678,164	\$	\$ 3,529,603
Cost of goods sold	1,116,793	480,702		1,597,495
Gross profit	1,734,646	197,462		1,932,108
Selling expenses	1,077,857	126,293		1,204,150
Research and development expenses	357,145	83,948		441,093
General and administrative expenses			1,039,523	1,039,523
Total operating expenses	1,435,002	210,241	1,039,523	2,684,766
Operating income (loss) from continuing operations	\$ 299,644	\$ (12,779)	\$ (1,039,523)	\$ (752,658)
Net (loss) from discontinued operations	\$ (257,029)	\$	\$	\$ (257,029)

For the three months ended March 31, 2009:

	Medical Device Products	Laboratory and Scientific Products	Corporate and Unallocated	Total
Net sales	\$ 1,947,727	\$ 777,220	\$	\$ 2,724,947
Cost of goods sold	986,874	500,839		1,487,713
Gross profit	960,853	276,381		1,237,234
Selling expenses	496,611	126,780		623,391
Research and development expenses	289,023	70,327		359,350
General and administrative expenses			1,179,425	1,179,425
Total operating expenses	785,634	197,107	1,179,425	2,162,166
Operating income (loss) from continuing operations	\$ 175,219	\$ 79,274	\$ (1,179,425)	\$ (924,932)
Net income from discontinued operations	\$ 81,031	\$ 253,126	\$	\$ 334,157

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

The Company's revenues are generated from various geographic regions. The following is an analysis of net sales by geographic region:

	Nine months ended March 31,		Three months ended March 31,	
	2010	2009	2010	2009
United States	\$ 6,988,004	\$ 7,761,487	\$ 2,216,915	\$ 2,444,930
United Kingdom	436,191	399,759	150,713	5,440
Europe	1,035,781	1,561,944	485,814	274,577
Asia	598,184	432,880	341,144	
Canada and Mexico	72,997	154,512	13,135	
Middle East	239,454	141,243	150,492	
Other	276,788	298,596	171,390	
	\$ 9,647,399	\$ 10,750,421	\$ 3,529,603	\$ 2,724,947

12. Fair Value of Financial Instruments

We follow a three-level fair value hierarchy that prioritizes the inputs to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect assumptions that market participants would use in pricing an asset or liability.

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at March 31, 2010:

March 31, 2010	Carrying Amount	Fair Value
Cash	\$ 9,179,233	\$ 9,179,233
Trade accounts receivable	2,386,365	2,386,365
Trade accounts payable	756,405	756,405
Note receivable	610,065	610,065
Note payable	258,784	258,784

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value, all are considered Level 1 inputs:

Cash

The carrying amount approximates fair value because of the short maturity of those instruments.

Trade Accounts Receivable

The carrying amount of trade receivables reflects net recovery value and approximates fair value because of their short outstanding terms.

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

Trade Accounts Payable

The carrying amount of trade payables approximates fair value because of their short outstanding terms.

Note Receivable

The carrying amount of the note receivable approximates fair value because the discount rate is fair market value.

Note Payable

The carrying amount of the note payable approximates fair value because the discount rate is fair market value.

13. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance now codified under Accounting Standards Codification (ASC) Topic 105-10, which establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). ASC Topic 105-10 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws as authoritative GAAP for SEC registrants. Upon adoption of this guidance under ASC Topic 105-10, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The guidance under ASC Topic 105-10 became effective for the Company as of September 30, 2009. References made to authoritative FASB guidance throughout this Report have been updated to the applicable Codification section.

In December 2007, the FASB issued guidance now codified under ASC Topic 810-10. ASC Topic 810-10 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The guidance under ASC Topic 810-10 became effective as of July 1, 2009 for the Company. In connection with the adoption of the guidance now codified under ASC Topic 810-10, the Company has reclassified amounts in the accompanying consolidated balance sheets, consolidated statements of operations, consolidated statement of stockholders' equity and consolidated statements of cash flows related to noncontrolling interests.

In December 2007, the FASB issued guidance now codified under ASC Topic 805. ASC Topic 805 requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Also, in April 2009, the FASB issued guidance now codified under ASC Topic 805-20, to address some of the application issues under ASC Topic 805. ASC Topic 805-20 deals with the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency (provided the fair value on the date of the acquisition of the related asset or liability can be determined). Both the guidance under ASC Topics 805 and 805-20 became effective as of July 1, 2009 for the Company. Accordingly, any business combination completed prior to July 1, 2009 was accounted for pursuant to Statement of Financial Accounting Standards No. 141, Business Combinations. Business combinations completed subsequent to July 1, 2009 will be accounted for pursuant to ASC Topics 805 and 805-20. The impact that ASC Topics 805 and 805-20 will have on the Company's consolidated financial statements will depend upon the nature, terms and size of such business combinations, if any.

In September 2006, the FASB issued guidance now codified under ASC Topic 820. ASC Topic 820 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. Under ASC Topic 820, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It also clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. ASC Topic 820 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, ASC Topic 820 does not require any new fair value measurements.

Table of Contents

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

The adoption of the guidance now codified under ASC Topic 820 for nonfinancial assets and nonfinancial liabilities which include goodwill, intangible assets, and long-lived assets measured at fair value for impairment assessments, and nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination, became effective for the Company on July 1, 2009. The adoption of the guidance under ASC Topic 820 for nonfinancial assets and nonfinancial liabilities did not have an impact on the Company's condensed consolidated financial statements.

In April 2009, the FASB issued guidance now codified under ASC Topic 825-10, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements. ASC Topic 825-10 also amends the disclosure requirements of ASC Topic 270-10 to require those disclosures in summarized financial information at interim reporting periods. The guidance under ASC Topic 825-10 became effective for the Company during the quarter ended September 30, 2009 and we have included the required additional interim disclosures in the financial statements.

In April 2008, the FASB issued guidance, now codified under ASC Topics 350-30 and 275-10, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC Topic 350. The guidance under ASC Topics 350-30 and 275-10 became effective as of July 1, 2009 for the Company. The adoption of ASC Topics 350-30 and 275-10 did not have a material effect on the Company's condensed consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, Measuring Liabilities at Fair Value, which provides clarification that in circumstances where a quoted market price in an active market for an identical liability is not available, a reporting entity must measure fair value of the liability using one of the following techniques: (a) the quoted price of the identical liability when traded as an asset, (b) quoted prices for similar liabilities or similar liabilities when traded as assets, or (c) another valuation technique, such as a present value technique or the amount that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability that is consistent with the provisions of ASC Topic 820. The adoption of ASU No. 2009-05 on October 1, 2009 did not have a material effect on the Company's condensed consolidated financial statements.

In October 2009, the FASB issued an accounting pronouncement which amends revenue recognition guidance for arrangements with multiple deliverables. The new guidance eliminates the residual method of revenue recognition and allows the use of management's best estimate of selling price for individual elements of an arrangement when vendor specific objective evidence, vendor objective evidence or third-party evidence is unavailable. Full retrospective application of the new guidance is optional. The adoption of this pronouncement is not expected to have a material impact on the Company's condensed consolidated financial statements.

In January 2010, the FASB issued an accounting pronouncement which amends fair value measurements and disclosures. The reporting entity must disclose information that enables the users of its financial statements to assess both (a) for assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to internal recognition, the valuation techniques and inputs used to develop their measurement and (b) for recurring fair value measurement using significant unobservable inputs, the effect of the measurements on earnings for this period. The adoption of this pronouncement is not expected to have a material impact on the Company's condensed consolidated financial statements.

In February 2010, the FASB issued an accounting update that addresses subsequent events. Specifically, the requirements to disclose the date that the financial statements are issued potentially conflicts with some of the SEC guidelines. The update addresses both the interaction of the requirements of this topic with the SEC's reporting requirements and the intended breadth of the reissuance disclosure provision related to subsequent events. The adoption of this update is not expected to have a material impact on the Company's condensed consolidated financial statements.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This Management's Discussion and Analysis of Financial Condition and Results of Operations of Misonix, Inc. and its subsidiaries, which we refer to as Misonix, we, our, and us, should be read in conjunction with the accompanying unaudited financial statements included in Item 1. Financial Statements of this Report and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the SEC) on September 28, 2009, for the fiscal year ended June 30, 2009 (2009 Form 10-K). Item 7 of the 2009 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of March 31, 2010.

Forward Looking Statements

This Report contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are intended to be covered by the safe harbors created thereby. Although the Company believes that the assumptions underlying the forward looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward looking statements contained in this Report will prove to be accurate. Factors that could cause actual results to differ from the results specifically discussed in the forward looking statements include, but are not limited to, the absence of anticipated contracts, higher than historical costs incurred in the performance of contracts or in conducting other activities, product mix in sales, results of joint ventures and investments in related entities, future economic, competitive and market conditions, and the outcome of legal proceedings as well as management business decisions.

Nine months ended March 31, 2010 and 2009.

Net sales: Net sales of the Company's medical device products and laboratory and scientific products decreased \$1,103,022 to \$9,647,399 for the nine months ended March 31, 2010 from \$10,750,421 for the nine months ended March 31, 2009. This difference in net sales is due to a decrease in sales of medical device products of \$779,108 to \$7,687,570 for the nine months ended March 31, 2010 from \$8,466,678 for the nine months ended March 31, 2009. This difference in net sales is also due to a decrease in laboratory and scientific products sales of \$323,914 to \$1,959,829 for the nine months ended March 31, 2010 from \$2,283,743 for the nine months ended March 31, 2009. The decrease in sales of therapeutic medical device products was primarily attributable to the Company's Neuroaspirator, European HIFU sales and the Company's AutoSonix product, partially offset by an increase in sales of the Company's bone scalpel product and Lysonix ultrasonic assisted liposuction product. Lower laboratory and scientific products sales are related to lower fume cabinet sales due to the overall economic environment.

Gross profit: Gross profit increased to 49.5% for the nine months ended March 31, 2010 from 42.0% for the nine months ended March 31, 2009. Gross profit for medical device products increased to 55.6% for the nine months ended March 31, 2010 from 45.7% for the nine months ended March 31, 2009. Gross profit for laboratory and scientific products decreased to 25.8% for the nine months ended March 31, 2010 from 28.1% for the nine months ended March 31, 2009. Gross profit for medical device products was favorably impacted in the nine months ended March 31, 2010 predominately due to a favorable product mix of higher margin bone scalpel and ultrasonic assisted liposuction products.

Selling expenses: Selling expenses increased \$1,168,675 to \$3,237,194 for the nine months ended March 31, 2010 from \$2,068,519 for the nine months ended March 31, 2009. Laboratory and scientific products selling expenses increased \$15,105. Selling expenses for medical device products increased \$1,153,570, primarily due to higher headcount expenses related to an expanded sales force of approximately 12 people.

Table of Contents

General and administrative expenses: General and administrative expenses decreased \$74,064 from \$3,952,159 in the nine months ended March 31, 2009 to \$3,878,095 in the nine months ended March 31, 2010 due to reduced costs at UKHIFU, Ltd. (UKHIFU) and cost reduction efforts such as headcount and insurance at Misonix.

Research and development expenses: Research and development expenses increased \$329,454 from \$1,057,679 for the nine months ended March 31, 2009 to \$1,387,133 for the nine months ended March 31, 2010. Laboratory and scientific products research and development expenses increased \$83,971 due to increased product support related to fume products. Research and development expenses for medical device products increased \$245,483, primarily due to increased headcount and related expenses.

Other income (expense): Other income for the nine months ended March 31, 2010 was \$1,017,698 as compared to \$1,882,768 for the nine months ended March 31, 2009. The decrease of \$865,070 was primarily due to the receipt in the first quarter of fiscal year 2009 of \$1,516,866 from USHIFU, LLC (USHIFU) pursuant to the Focus Surgery, Inc. (Focus) transaction between the Company and USHIFU. This payment consisted of \$837,500 for the 2,500 shares of Series M Preferred Stock of Focus owned by the Company and fifty (50%) percent of the outstanding principal and accrued interest of loans previously made by the Company to Focus. During the three months ended March 31, 2010, the remaining 50% of the outstanding principal and accrued interest on the loan which resulted in a gain of \$679,336 that was recorded in the third quarter.

Income taxes: The effective tax rate was 40% for the nine months ended March 31, 2010 as compared to an effective tax rate of 72.5% for the nine months ended March 31, 2009. The 40% is predicated on the impact of permanent differences between accounting and taxable income for non-cash compensation and entertainment expenses. The 72.5% for the nine months ended March 31, 2009 was the result of the reversal of a valuation allowance that expired in March 2009 for \$250,000.

Three months ended March 31, 2010 and 2009.

Net sales: Net sales of the Company's medical device products and laboratory and scientific products increased \$804,656 to \$3,529,603 for the three months ended March 31, 2010 from \$2,724,947 for the three months ended March 31, 2009. This difference in net sales is due to an increase in sales of medical device products of \$903,712 to \$2,851,439 for the three months ended March 31, 2010 from \$1,947,727 for the three months ended March 31, 2009. This difference in net sales is also due to a decrease in laboratory and scientific products sales of \$99,056 to \$678,164 for the three months ended March 31, 2010 from \$777,220 for the three months ended March 31, 2009. The increase in therapeutic medical device products was primarily attributable to sales of the Company's bone scalpel, Neuroaspirator, AutoSonix, and the Lysonix ultrasonic assisted liposuction products, partially offset by lower European HIFU and SonicOne revenue. The decrease in laboratory and scientific products sales is due to lower fume cabinet sales due to the overall economic environment.

Gross profit: Gross profit increased to 54.7% for the three months ended March 31, 2010 from 45.4% for the three months ended March 31, 2009. Gross profit for medical device products increased to 60.8% for the three months ended March 31, 2010 from 49.3% for the three months ended March 31, 2009. Gross profit for laboratory and scientific products decreased to 29.1% for the three months ended March 31, 2010 from 35.6% for the three months ended March 31, 2009. Gross profit for medical device products was favorably impacted in the three months ended March 31, 2010 predominately due to a favorable product mix of higher margin bone scalpel products. The decrease in gross profit percentage in the March 2010 period for laboratory and scientific products is due to a reduction in revenues compared with fixed factory overhead costs.

Selling expenses: Selling expenses increased \$580,759 to \$1,204,150 for the three months ended March 31, 2010 from \$623,391 for the three months ended March 31, 2009. Laboratory and scientific products selling expenses decreased \$487. Selling expenses for medical device products increased \$581,246, primarily due to higher headcount expenses related to an expanded sales force of approximately 12 people.

Table of Contents

General and administrative expenses: General and administrative expenses decreased \$139,902 from \$1,179,425 in the three months ended March 31, 2009 to \$1,039,523 in the three months ended March 31, 2010 due to lower bad debt, bank fees, the expiration of the Company's loan agreement with Wells Fargo Bank (Wells Fargo), and reduced fees for our investor relations programs.

Research and development expenses: Research and development expenses increased \$81,743 from \$359,350 for the three months ended March 31, 2009 to \$441,093 for the three months ended March 31, 2010. Laboratory and scientific products research and development expenses increased \$13,621 due to increased product support related to fume products. Research and development expenses for medical device products increased \$68,122, primarily due to increased headcount and related expenses.

Other income (expense): Other income for the three months ended March 31, 2010 was \$815,534 as compared to \$119,617 for the three months ended March 31, 2009. The increase of \$695,917 is related to the receipt of the remaining 50% of the Focus note. During the three months ended March 31, 2010 the remaining 50% of the outstanding principal and accrued interest on the loan resulted in a gain of \$679,336 that was recorded in the third quarter.

Income taxes: The effective tax rate was 73% for the three months ended March 31, 2010, as compared to an effective tax rate of 72.3% for the three months ended March 31, 2009. The 73% is predicated on the assumption of an effective tax rate of approximately 40% based upon updated assumptions in the second quarter of fiscal 2010 plus the impact of permanent differences between accounting and taxable income. The 72.3% for the three months ended March 31, 2009 was the result of the reversal of a valuation allowance that expired in March 2009 for \$250,000.

Liquidity and Capital Resources

We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations, available borrowings under bank lines of credit and possible future public or private debt and/or equity offerings. At times, we evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which may require the use of cash. We believe that our cash, other liquid assets and access to equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures. In the event that they do not, we may require additional funds in the future to support our working capital requirements or for other purposes and may seek to raise such additional funds through the sale of public or private equity and/or debt financings, divestiture of current business lines as well as from other sources. No assurance can be given that additional financing will be available in the future or that if available, such financing will be obtainable on favorable terms when required.

Working capital at March 31, 2010 and June 30, 2009 was \$15,255,000 and \$7,768,000, respectively. For the nine months ended March 31, 2010, cash used in operations totaled \$3,096,000 predominately due to a \$1,600,000 loss from continuing operations and the adjustment for deferred income taxes. For the nine months ended March 31, 2010, cash used in investing activities totaled \$245,000. For the nine months ended March 31, 2010, cash used in financing activities was \$2,646,000 predominately due to the payoff of the credit facility with Wells Fargo.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to the Company.

Table of Contents

Other

In the opinion of management, inflation has not had a material effect on the operations of the Company.

New Accounting Pronouncements

We are required to adopt certain new accounting pronouncements. See note 13 to our consolidated financial statements included herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk:

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed are interest rates on short-term investments and foreign exchange rates, which generate translation gains and losses due to the English Pound to U.S. Dollar conversion of Misonix, Ltd. and UKHIFU.

Interest Rate Risk:

The Company earns interest on cash balances and pays interest on debt incurred. In light of the Company's existing cash, results of operations, and projected borrowing requirements, the Company does not believe that a 10% change in interest rates would have a significant impact on its consolidated financial position.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decision regarding required disclosures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2010 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting:

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three months ended March 31, 2010 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Part II OTHER INFORMATION

Item 1A. Risk Factors.

Risks and uncertainties that, if they were to occur, could materially adversely affect our business or that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report and other public statements were set forth in the Item 1A. Risk Factors section of our 2009 Form 10-K. There have been no material changes from the risk factors disclosed in that Form 10-K.

Item 6. Exhibits.

Exhibit 31.1- Rule 13a-14(a)/15d-14(a) Certification

Exhibit 31.2- Rule 13a-14(a)/15d-14(a) Certification

Exhibit 32.1- Section 1350 Certification of Chief Executive Officer

Exhibit 32.2- Section 1350 Certification of Chief Financial Officer

Table of Contents

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.

Date: May 12, 2010

MISONIX, INC.
(Registrant)

By: /s/ Michael A. McManus, Jr.
Michael A. McManus, Jr.
President and Chief Executive Officer

By: /s/ Richard Zaremba
Richard Zaremba
Senior Vice President, Chief Financial
Officer,
Treasurer and Secretary