

MISONIX INC  
Form 10-Q  
February 16, 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 December 31, 2009**

**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

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

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| Class of Common Stock         | Outstanding at<br>February 16, 2010 |
|-------------------------------|-------------------------------------|
| Common Stock, \$.01 par value | 7,001,369                           |

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**MISONIX, INC.**  
**INDEX**

|  | <b>Page</b> |
|--|-------------|
| <b><u>Part I FINANCIAL INFORMATION</u></b>   |             |
| <b><u>Item 1. Financial Statements:</u></b>  |             |
| <u>Consolidated Balance Sheets as of<br/>December 31, 2009 (Unaudited) and June 30, 2009</u>               | 3           |
| <u>Consolidated Statements of Operations<br/>Six months ended December 31, 2009 and 2008 (Unaudited)</u>   | 4           |
| <u>Consolidated Statements of Operations<br/>Three months ended December 31, 2009 and 2008 (Unaudited)</u> | 5           |
| <u>Consolidated Statement of Stockholders' Equity<br/>Six months ended December 31, 2009 (Unaudited)</u>   | 6           |
| <u>Consolidated Statements of Cash Flows<br/>Six months ended December 31, 2009 and 2008 (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          |
| <b><u>Part II OTHER INFORMATION</u></b>  |             |
| <u>Item 1A. Risk Factors</u>   | 24          |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</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**

|  | <b>December 31,<br/>2009<br/>(Unaudited)</b> | June 30,<br>2009<br>(Derived from<br>audited financial<br>statements) |
|--|--|---|
| <b>Assets</b>  |  |   |
| Current assets:  |  |   |
| Cash   | \$ 9,757,428                                 | \$ 3,415,813  |
| Accounts receivable, less allowance for doubtful accounts of \$396,089 and \$334,399, respectively | 2,243,612                                    | 3,301,551   |
| Inventories, net   | 3,177,770                                    | 3,678,743   |
| Deferred income taxes  | 1,014,262                                    | 762,429   |
| Prepaid expenses and other current assets  | 970,261                                      | 715,589   |
| Current assets of discontinued operations  |  | 9,119,435   |
| Total current assets   | 17,163,333                                   | 20,993,560  |
| Property, plant and equipment, net   | 1,254,294                                    | 588,191   |
| Deferred income taxes  | 299,482                                      | 128,183   |
| Goodwill   | 2,028,748                                    | 2,016,941   |
| Other assets   | 1,675,186                                    | 757,551   |
| Assets of discontinued operations  |  | 10,678,980  |
| Total assets   | \$ 22,421,043                                | \$ 35,163,406   |
| <b>Liabilities and stockholders equity</b>   |  |   |
| Current liabilities:   |  |   |
| Revolving credit facilities  | \$   | \$ 2,633,059  |
| Notes payable  | 11,304                                       | 261,485   |
| Accounts payable   | 1,207,052                                    | 690,004   |
| Accrued expenses and other current liabilities   | 746,309                                      | 807,691   |
| Foreign income taxes payable   | 4,207  | 10,363  |
| Current maturities of capital lease obligations  | 14,019                                       | 13,523  |
| Current liabilities of discontinued operations   |  | 8,809,535   |
| Total current liabilities  | 1,982,891                                    | 13,225,660  |
| Capital lease obligations  | 20,541                                       | 27,716  |
| Deferred lease liability   | 19,305                                       | 38,607  |
| Deferred income taxes  | 405,776                                      | 405,776   |
| Deferred income  | 189,051                                      | 201,207   |
| Liabilities related to discontinued operations   |  | 280,652   |

|  |                      |               |
|--|----------------------|---------------|
| Total liabilities  | <b>2,617,564</b>     | 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 | <b>70,792</b>        | 70,792        |
| Additional paid-in capital   | <b>25,391,798</b>    | 25,251,412    |
| Accumulated deficit  | <b>(4,966,597)</b>   | (3,824,003)   |
| Accumulated other comprehensive loss   | <b>(325,166)</b>     | (348,936)     |
| Treasury stock, 77,800 shares  | <b>(412,424)</b>     | (412,424)     |
| Total Misonix, Inc. stockholders' equity   | <b>19,758,403</b>    | 20,736,841    |
| Noncontrolling interest  | <b>45,076</b>        | 246,947       |
| Total stockholders' equity   | <b>19,803,479</b>    | 20,983,788    |
| Total liabilities and stockholders' equity   | <b>\$ 22,421,043</b> | \$ 35,163,406 |

*See Accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

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

|   | <b>For the six months ended</b> |              |
|---|---------------------------------|--------------|
|   | <b>December 31,</b>             |              |
|   | <b>2009</b>                     | <b>2008</b>  |
| Net sales   | <b>\$ 6,117,796</b>             | \$ 8,025,474 |
| Cost of goods sold  | <b>3,269,938</b>                | 4,751,374    |
| Gross profit  | <b>2,847,858</b>                | 3,274,100    |
| Operating expenses:   |                                 |              |
| Selling expenses  | <b>2,033,044</b>                | 1,445,128    |
| General and administrative expenses   | <b>2,838,572</b>                | 2,772,734    |
| Research and development expenses   | <b>946,040</b>                  | 698,329      |
| Total operating expenses  | <b>5,817,656</b>                | 4,916,191    |
| Operating loss from continuing operations                                     | <b>(2,969,798)</b>              | (1,642,091)  |
| Other income (expense):   |                                 |              |
| Interest income   | <b>28,082</b>                   | 35,795       |
| Interest expense  | <b>(45,659)</b>                 | (93,132)     |
| Royalty income and license fees   | <b>308,883</b>                  | 315,963      |
| Royalty expense   | <b>(65,056)</b>                 | (16,502)     |
| Recovery of Focus Surgery, Inc. investment                                    |                                 | 1,516,866    |
| Other   | <b>(24,085)</b>                 | 4,161        |
| Total other income  | <b>202,165</b>                  | 1,763,151    |
| (Loss) income from continuing operations before income taxes                  | <b>(2,767,633)</b>              | 121,060      |
| Income tax (benefit) provision  | <b>(1,134,044)</b>              | 104,401      |
| Net (loss) income from continuing operations                                  | <b>(1,633,589)</b>              | 16,659       |
| Discontinued Operations:  |                                 |              |
| Net income from discontinued operations, net of tax of \$0 and \$183,059      |                                 |              |
| Ultrasonics   |                                 | 252,796      |
| Net income from discontinued operations, net of tax of \$32,429 and \$100,335 |                                 |              |
| Sonora  | <b>129,717</b>                  | 138,557      |
| Net income from discontinued operations, net of tax of \$437,968 and \$52,729 |                                 |              |
| Labcaire  | <b>514,477</b>                  | 123,036      |
| Net loss on the sale of Labcaire, net of tax of (\$100,163)                   | <b>(195,716)</b>                |              |
| Gain on sale of net assets of Sonora, net of tax of \$885,076                 | <b>82,897</b>                   |              |

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|  |                       |            |
|--|-----------------------|------------|
| Total net income from discontinued operations                  | <b>531,375</b>        | 514,389    |
| Net (loss) income  | <b>(1,102,214)</b>    | 531,048    |
| Net income attributable to noncontrolling interest             | <b>40,380</b>         | 17,544     |
| Net (loss) income attributable to Misonix, Inc. shareholders   | <b>\$ (1,142,594)</b> | \$ 513,504 |
| Net (loss) income per share from continuing operations Basic   | <b>\$ (0.23)</b>      | \$         |
| Net income per share from discontinued operations Basic        | <b>0.08</b>           | 0.07       |
| Net (loss) income per share Basic                              | <b>\$ (0.16)</b>      | \$ 0.07    |
| Net (loss) income per share from continuing operations Diluted | <b>\$ (0.23)</b>      | \$         |
| Net income per share from discontinued operations Diluted      | <b>0.08</b>           | 0.07       |
| Net (loss) income per share Diluted                            | <b>\$ (0.16)</b>      | \$ 0.07    |
| Weighted average common shares outstanding Basic               | <b>7,001,369</b>      | 7,001,369  |
| Weighted average common shares outstanding Diluted             | <b>7,001,369</b>      | 7,022,226  |

*See Accompanying Notes to Consolidated Financial Statements.*



**Table of Contents**

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

|   | <b>For the three months ended</b> |              |
|---|-----------------------------------|--------------|
|   | <b>December 31,</b>               |              |
|   | <b>2009</b>                       | <b>2008</b>  |
| Net sales   | \$ <b>3,371,112</b>               | \$ 4,882,275 |
| Cost of goods sold  | <b>1,645,395</b>                  | 2,837,700    |
| Gross profit  | <b>1,725,717</b>                  | 2,044,575    |
| Operating expenses:   |                                   |              |
| Selling expenses  | <b>1,083,631</b>                  | 646,802      |
| General and administrative expenses                                     | <b>1,493,316</b>                  | 1,269,133    |
| Research and development expenses                                       | <b>523,571</b>                    | 377,697      |
| Total operating expenses  | <b>3,100,518</b>                  | 2,293,632    |
| Operating loss from continuing operations                               | <b>(1,374,801)</b>                | (249,057)    |
| Other income (expense):   |                                   |              |
| Interest income   | <b>14,054</b>                     | 4,744        |
| Interest expense  | <b>(17,571)</b>                   | (46,870)     |
| Royalty income and license fees   | <b>152,260</b>                    | 139,736      |
| Royalty expense   | <b>(65,056)</b>                   | (12,918)     |
| Other   | <b>(34,250)</b>                   | 28,403       |
| Total other income  | <b>49,437</b>                     | 113,095      |
| Loss from continuing operations before income taxes                     | <b>(1,325,364)</b>                | (135,962)    |
| Income tax benefit  | <b>(888,280)</b>                  | (45,035)     |
| Net loss from continuing operations                                     | <b>(437,084)</b>                  | (90,927)     |
| Discontinued Operations:  |                                   |              |
| Net income from discontinued operations, net of tax of \$0 and \$97,159 |                                   |              |
| Ultrasonics   |                                   | 134,172      |
| Net income from discontinued operations, net of tax of \$0 and \$67,006 | Sonora                            | 92,531       |
| Net income from discontinued operations, net of tax of \$0 and \$26,879 | Labcaire                          | 62,720       |
| Gain on sale of net assets of Sonora, net of tax of \$885,076           | <b>82,897</b>                     |              |
| Total net income from discontinued operations                           | <b>\$ 82,897</b>                  | \$ 289,423   |

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|  |  |                     |            |
|--|--|---------------------|------------|
| Net (loss) income  |  | <b>(354,187)</b>    | 198,496    |
| Net income attributable to noncontrolling interest           |  | <b>12,748</b>       | 4,994      |
| Net (loss) income attributable to Misonix, Inc. shareholders |  | <b>\$ (366,935)</b> | \$ 193,502 |
| Net loss per share from continuing operations Basic          |  | <b>\$ (0.06)</b>    | \$ (0.01)  |
| Net income per share from discontinued operations Basic      |  | <b>0.01</b>         | 0.04       |
| Net (loss) income per share Basic                            |  | <b>\$ (0.05)</b>    | \$ 0.03    |
| Net loss per share from continuing operations Diluted        |  | <b>\$ (0.06)</b>    | \$ (0.01)  |
| Net income per share from discontinued operations Diluted    |  | <b>0.01</b>         | 0.04       |
| Net (loss) income per share Diluted                          |  | <b>\$ (0.05)</b>    | \$ 0.03    |
| 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 Statement of Stockholders Equity**  
**(Unaudited)**

**Six months ended December 31, 2009**

|  | <b>Common Stock</b><br><b>\$.01 Par Value</b> |                  | <b>Treasury Stock</b>           |                     | <b>Additional<br/>paid-in<br/>capital</b> | <b>Accumulated<br/>deficit</b> | <b>Accumulated<br/>other<br/>comprehensive<br/>income<br/>(loss)</b> | <b>Noncontrolling<br/>interest</b> | <b>Total<br/>stockholders<br/>equity</b> |
|--|---|------------------|---------------------------------|---------------------|---|--------------------------------|--|------------------------------------|--|
|  | <b>Number<br/>of shares</b>                   | <b>Amount</b>    | <b>Number<br/>of<br/>shares</b> | <b>Amount</b>       |   |                                |  |                                    |  |
| Balance,<br>June 30, 2009                            | <b>7,079,169</b>                              | <b>\$ 70,792</b> | <b>(77,800)</b>                 | <b>\$ (412,424)</b> | <b>\$ 25,251,412</b>                      | <b>\$ (3,824,003)</b>          | <b>\$ (348,936)</b>  | <b>\$ 246,947</b>                  | <b>\$ 20,983,788</b>                     |
| Net loss   |   |                  |                                 |                     |   | (1,142,594)                    |  | 40,380                             | (1,102,214)                              |
| Foreign<br>currency<br>translation<br>adjustment     |   |                  |                                 |                     |   |                                | 23,770   |                                    | 23,770                                   |
| Comprehensive<br>loss                                |   |                  |                                 |                     |   |                                |  |                                    | (1,078,444)                              |
| Purchase of<br>remaining 5%<br>interest in<br>Sonora |   |                  |                                 |                     |   |                                |  | (242,251)                          | (242,251)                                |
| Stock-based<br>compensation                          |   |                  |                                 |                     | 140,386                                   |                                |  |                                    | 140,386                                  |
| <b>Balance,<br/>December 31,<br/>2009</b>            | <b>7,079,169</b>                              | <b>\$ 70,792</b> | <b>(77,800)</b>                 | <b>\$ (412,424)</b> | <b>\$ 25,391,798</b>                      | <b>\$ (4,966,597)</b>          | <b>\$ (325,166)</b>  | <b>\$ 45,076</b>                   | <b>\$ 19,803,479</b>                     |

*See Accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

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

|  | <b>For the six months ended</b> |              |
|--|---------------------------------|--------------|
|  | <b>December 31,</b>             |              |
|  | <b>2009</b>                     | <b>2008</b>  |
| <b>Operating activities</b>  |                                 |              |
| Net income (loss) from continuing operations   | (1,633,589)                     | 16,659       |
| Adjustments to reconcile net (loss) income from continuing operations to net cash used in continuing operating activities: |                                 |              |
| Depreciation and amortization and other non-cash items   | 204,775                         | 245,696      |
| Bad debt expense   | 31,525                          | 81,992       |
| Deferred income tax (benefit) expense  | (788,734)                       | 367,364      |
| Loss on disposal of property, plant and equipment  | 1,017                           |              |
| Stock-based compensation   | 140,386                         | 88,375       |
| Deferred income (loss)   | (12,156)                        | (12,156)     |
| Deferred leasehold costs   | (19,302)                        | (9,273)      |
| Recovery of Focus Surgery, Inc. investment   |                                 | (1,516,866)  |
| Changes in operating assets and liabilities:   |                                 |              |
| Accounts receivable  | 1,072,863                       | (485,068)    |
| Inventories  | 502,044                         | 907,851      |
| Income taxes   | (103,608)                       | (16,413)     |
| Prepaid expenses and other current assets  | (253,747)                       | 206,584      |
| Accounts payable and other accrued liabilities   | 213,840                         | (826,147)    |
| Foreign income taxes payable   | (3,147)                         |              |
| Other assets   | (835,010)                       | (130,897)    |
| Net cash used in operating activities  | (1,482,843)                     | (1,082,299)  |
| <b>Investing activities</b>  |                                 |              |
| Acquisition of property, plant and equipment   | (833,763)                       | (125,688)    |
| Recovery of Focus Surgery, Inc. investment   |                                 | 1,516,866    |
| Investment in UKHIFU Limited   | (16,502)                        |              |
| Acquisition of minority interest   |                                 | (21,705)     |
| Net cash (used in) provided by investing activities  | (850,265)                       | 1,369,473    |
| <b>Financing activities</b>  |                                 |              |
| Proceeds from short-term borrowings  | 9,229,418                       | 14,007,047   |
| Payments of short-term borrowings  | (12,112,658)                    | (14,836,575) |
| Principal payments on capital lease obligations  | (6,679)                         | (7,230)      |
| Net cash used in financing activities  | (2,889,919)                     | (836,758)    |
| Cash flows from discontinued operations  |                                 |              |
| Net cash provided by operating activities  | 371,098                         | 152,462      |
| Net cash provided by investing activities  | 12,600,000                      |              |
| Net cash used in financing activities  | (1,400,000)                     |              |

|  |            |           |
|--|------------|-----------|
| Net cash provided by discontinued operations | 11,571,098 | 152,462   |
| Effect of exchange rate changes on cash      | (6,456)    | 51,130    |
| Net increase (decrease) in cash              | 6,341,615  | (345,992) |
| Cash at beginning of period                  | 3,415,813  | 1,532,983 |
| Cash at end of period                        | 9,757,428  | 1,186,991 |

**Supplemental disclosure of cash flow information:**

Cash paid for:

|              |           |            |
|--------------|-----------|------------|
| Interest     | \$ 49,962 | \$ 186,797 |
| Income taxes | \$ 25     | \$ 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 six months ended December 31, 2009 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.

**Subsequent Events**

We evaluated events or transactions which occurred subsequent to the balance sheet date but prior to February 16, 2010, the issuance date of the financial statements, for recognition or disclosure.

**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 business ( Ultrasonics ) 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 Laboratory Products 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 December 31, 2009, there were no commissions paid. For the six months ended December 31, 2009, 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.



**Table of Contents**

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

(Information with respect to interim periods is unaudited)

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, Inc. for a cash payment of \$8,000,000 (subject to a future adjustment based on net working capital at the closing). 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 operation. 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,<br>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        |
| <br>Total assets of discontinued operations      | <br>\$ 7,400,553 |
| <br>Accounts payable                             | <br>\$ 355,962   |
| Accrued expenses and other current liabilities   | 356,294          |
| Deferred lease                                   | 235,894          |
| Other liabilities                                | 44,758           |
| <br>Total liabilities of discontinued operations | <br>\$ 992,908   |

**Labcaire**

|                                   | June 30,<br>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 six months ended |               | For the three months ended |              |
|---|--------------------------|---------------|----------------------------|--------------|
|   | December 31,             |               | December 31,               |              |
|   | 2009                     | 2008          | 2009                       | 2008         |
| Revenues  | \$ 3,923,161             | \$ 15,470,938 | \$                         | \$ 7,307,664 |
| Income from discontinued operations, before tax | \$ 1,113,861             | \$ 850,512    | \$                         | \$ 480,466   |
| Loss on sale of Labcaire                        | (295,149)                |               |                            |              |
| Gain on sale of Sonora                          | 967,973                  |               | 967,973                    |              |
| Income tax expense                              | (1,255,310)              | (336,123)     | (885,076)                  | (191,043)    |
| Income from discontinued operations, net of tax | \$ 531,375               | \$ 514,389    | \$ 82,897                  | \$ 289,423   |

**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 six months ended |           | For the three months ended |           |
|----------------------------------|--------------------------|-----------|----------------------------|-----------|
|                                  | December 31,             |           | December 31,               |           |
|                                  | 2009                     | 2008      | 2009                       | 2008      |
| Basic shares                     | 7,001,369                | 7,001,369 | 7,001,369                  | 7,001,369 |
| Dilutive effect of stock options |                          | 20,857    |                            |           |
| Diluted shares                   | 7,001,369                | 7,022,226 | 7,001,369                  | 7,001,369 |

Diluted EPS for the six and three months ended December 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, we excluded from the calculation of diluted EPS all outstanding options for the three and six months ended December 31, 2009 were 1,936,708. Excluded from the calculation of diluted EPS are outstanding options for 1,840,134 and 1,860,991 shares for the three and six months ended December 31, 2008, 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 \$(1,078,444) and \$(210,964) for the six and three months ended December 31, 2009 and \$24,863 and \$346,726 for the six and three months ended December 31, 2008, 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 December 31, 2009 and 2008, the Company granted options to purchase 0 and 132,150 shares of the Company's common stock, respectively. During the six month periods ended December 31, 2009 and 2008, 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 six month period ended December 31, 2009 and 2008 was \$140,000 and \$88,000, respectively. Stock-based compensation expense for the three month period ended December 31, 2009 and 2008 was \$108,000 and \$28,000, 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 December 31, 2009, there was approximately \$576,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 1.8 years.

There was no cash received from the exercise of stock options for the six and three month periods ended December 31, 2009 and 2008. 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 December 31, 2009 and 2008 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 six months ended<br>December 31, |         | For the three months ended<br>December 31, |       |
|--|--|---------|--|-------|
|  | 2009                                     | 2008    | 2009                                       | 2008  |
| Risk-free interest rate                        | 3.1%                                     | 3.1%    |  | 2.8%  |
| Expected option life in years                  | 6.5                                      | 6.5     |  | 6.5   |
| Expected stock price volatility                | 81.94%                                   | 54.5%   |  | 54.9% |
| Expected dividend yield                        | 0%                                       | 0%      |  | 0%    |
| Weighted-average fair value of options granted | \$ 2.02                                  | \$ 1.14 | \$   | 0.93  |

**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 six months ended December 31, 2009 were as follows:

|   |                     | Options                                  |  |                                     |
|---|---------------------|--|--|-------------------------------------|
|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(years) | Aggregate<br>Intrinsic<br>Value (a) |
| Outstanding as of June 30, 2009             | 1,799,918           | 5.21                                     | 5.4  |                                     |
| Granted                                     | 148,300             | 2.44                                     |  |                                     |
| Forfeited                                   | (11,510)            | 5.34                                     |  |                                     |
| Expired                                     |                     |  |  |                                     |
| Outstanding as of December 31, 2009         | 1,936,708           | 5.00                                     | 5.3  | \$ 7.596                            |
| Exercisable and vested at December 31, 2009 | 1,500,076           | 5.71                                     | 4.9  | \$ 1.899                            |
| Available for grant at December 31, 2009    | 884,161             |  |  |                                     |

(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 December 31, 2009 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 to be due on January 1, 2010. Upon collection, such payment will be recognized as a gain. Interest payable quarterly, commencing October 1, 2008, at the rate of eight (8%) per annum will be paid on the balance due the Company. USHIFU and Focus have each granted the Company a security interest in certain of their assets to secure the amount owed. The Company is also a party to an inter-creditor agreement with USHIFU, Focus and one of the other former stockholders of Focus with respect to the collateral securing the amount owed the Company. As a result of this transaction, the Company reported a gain of \$1.5 million which was reported in Other income in the accompanying statement of operations for the three months ended September 30, 2008.

**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 December 31, 2009. 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 December 31, 2009, 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 December 31, 2009. 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:

|                        | <b>December 31,<br/>2009</b> | June 30,<br>2009 |
|------------------------|------------------------------|------------------|
| Raw materials          | <b>\$ 2,420,164</b>          | \$ 2,380,827     |
| Work-in-process        | <b>1,084,938</b>             | 876,918          |
| Finished goods         | <b>438,567</b>               | 1,199,230        |
|                        | <b>3,943,669</b>             | 4,456,975        |
| Less valuation reserve | <b>765,899</b>               | 778,232          |
|                        | <b>\$ 3,177,770</b>          | \$ 3,678,743     |

**8. Accrued Expenses and Other Current Liabilities**

The following summarizes accrued expenses and other current liabilities:

|                                 | <b>December 31,<br/>2009</b> | June 30,<br>2009 |
|---------------------------------|------------------------------|------------------|
| Accrued payroll and vacation    | <b>\$ 360,418</b>            | \$ 378,933       |
| Accrued VAT and sales tax       | <b>45,490</b>                | 30,227           |
| Accrued commissions and bonuses | <b>160,482</b>               | 245,852          |
| Accrued professional fees       | <b>24,172</b>                | 11,762           |
| Other                           | <b>155,747</b>               | 140,917          |
|                                 | <b>\$ 746,309</b>            | \$ 807,691       |

**Table of Contents**

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

(Information with respect to interim periods is unaudited)

**9. Revolving Credit Facilities**

On December 29, 2006, the Company and its subsidiaries, Sonora and Hearing Innovations, Inc., and Wells Fargo Bank entered into a (i) Credit and Security Agreement and a (ii) Credit and Security Agreement Export-Import Subfacility (collectively referred to as the Credit Agreements ). The aggregate credit limit under the Credit Agreements was \$8,000,000 consisting of a revolving facility in the amount of up to \$8,000,000. Up to \$1,000,000 of the revolving facility was available under the Export-Import Agreement as a subfacility for Export-Import working capital financing. All credit facilities under the Credit Agreements matured on December 29, 2009. Accordingly, the Credit Agreements expired on December 29, 2009. All amounts outstanding were repaid.

**10. Commitments and Contingencies**

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

**11. 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 six months ended December 31, 2009:

|   | <b>Medical<br/>Device<br/>Products</b> | <b>Laboratory and<br/>Scientific<br/>Products</b> | <b>Corporate<br/>and<br/>Unallocated</b> | <b>Total</b>   |
|---|--|---|--|----------------|
| Net sales                                 | \$ 4,836,131                           | \$ 1,281,665                                      | \$                                       | \$ 6,117,796   |
| Cost of goods sold                        | 2,296,901                              | 973,037   |  | 3,269,938      |
| Gross profit                              | 2,539,230                              | 308,628   |  | 2,847,858      |
| Selling expenses                          | 1,780,109                              | 252,935   |  | 2,033,044      |
| Research and development expenses         | 780,537                                | 165,503   |  | 946,040        |
| General and administrative expenses       |  |   | 2,838,572                                | 2,838,572      |
| Total operating expenses                  | 2,560,646                              | 418,438   | 2,838,572                                | 5,817,656      |
| Operating loss from continuing operations | \$ (21,416)                            | \$ (109,810)                                      | \$ (2,838,572)                           | \$ (2,969,798) |
| Net income from discontinued operations   | \$ 212,614                             | \$ 318,761  | \$                                       | \$ 531,375     |

For the six months ended December 31, 2008:

|  | <b>Medical<br/>Device<br/>Products</b> | <b>Laboratory and<br/>Scientific<br/>Products</b> | <b>Corporate<br/>and<br/>Unallocated</b> | <b>Total</b>   |
|--|--|---|--|----------------|
| Net sales  | \$ 6,518,951                           | \$ 1,506,523                                      | \$                                       | \$ 8,025,474   |
| Cost of goods sold                                 | 3,610,059                              | 1,141,315   |  | 4,751,374      |
| Gross profit                                       | 2,908,892                              | 365,208   |  | 3,274,100      |
| Selling expenses                                   | 1,207,785                              | 237,343   |  | 1,445,128      |
| Research and development expenses                  | 603,176                                | 95,153  |  | 698,329        |
| General and administrative expenses                |  |   | 2,772,734                                | 2,772,734      |
| Total operating expenses                           | 1,810,961                              | 332,496   | 2,772,734                                | 4,916,191      |
| Operating income (loss) from continuing operations | \$ 1,097,931                           | \$ 32,712   | \$ (2,772,734)                           | \$ (1,642,091) |
| Net income from discontinued operations            | \$ 138,557                             | \$ 375,832  | \$                                       | \$ 514,389     |





**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 December 31, 2009:

|  | <b>Medical<br/>Device<br/>Products</b> | <b>Laboratory and<br/>Scientific<br/>Products</b> | <b>Corporate<br/>and<br/>Unallocated</b> | <b>Total</b>   |
|--|--|---|--|----------------|
| Net sales  | \$ 2,717,180                           | \$ 653,932  | \$                                       | \$ 3,371,112   |
| Cost of goods sold                                 | 1,199,552                              | 445,843   |  | 1,645,395      |
| Gross profit                                       | 1,517,628                              | 208,089   |  | 1,725,717      |
| Selling expenses                                   | 951,148                                | 132,483   |  | 1,083,631      |
| Research and development expenses                  | 443,842                                | 79,729  |  | 523,571        |
| General and administrative expenses                |  |   | 1,493,316                                | 1,493,316      |
| Total operating expenses                           | 1,394,990                              | 212,212   | 1,493,316                                | 3,100,518      |
| Operating income (loss) from continuing operations | \$ 122,638                             | \$ (4,123)  | \$ (1,493,316)                           | \$ (1,374,801) |
| Net income from discontinued operations            | \$ 82,897                              | \$  | \$                                       | \$ 82,897      |

For the three months ended December 31, 2008:

|  | <b>Medical<br/>Device<br/>Products</b> | <b>Laboratory and<br/>Scientific<br/>Products</b> | <b>Corporate<br/>and<br/>Unallocated</b> | <b>Total</b> |
|--|--|---|--|--------------|
| Net sales  | \$ 4,022,914                           | \$ 859,361  | \$                                       | \$ 4,882,275 |
| Cost of goods sold                                 | 2,192,182                              | 645,518   |  | 2,837,700    |
| Gross profit                                       | 1,830,732                              | 213,843   |  | 2,044,575    |
| Selling expenses                                   | 516,130                                | 130,672   |  | 646,802      |
| Research and development expenses                  | 331,702                                | 45,995  |  | 377,697      |
| General and administrative expenses                |  |   | 1,269,133                                | 1,269,133    |
| Total operating expenses                           | 847,832                                | 176,667   | 1,269,133                                | 2,293,632    |
| Operating income (loss) from continuing operations | \$ 982,900                             | \$ 37,176   | \$ (1,269,133)                           | \$ (249,057) |
| Net income from discontinued operations            | \$ 92,531                              | \$ 196,892  | \$                                       | \$ 289,423   |



**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:

|                   | Six months ended December |                     | Three months ended December |                     |
|-------------------|---------------------------|---------------------|-----------------------------|---------------------|
|                   | 31,                       | 2008                | 31,                         | 2008                |
|                   | <b>2009</b>               | 2008                | <b>2009</b>                 | 2008                |
| United States     | \$ 4,787,804              | \$ 5,316,557        | \$ 2,642,750                | \$ 3,117,386        |
| United Kingdom    | 285,479                   | 394,318             | 169,070                     | 217,898             |
| Europe            | 549,967                   | 1,287,367           | 302,788                     | 1,060,611           |
| Asia              | 240,530                   | 432,880             | 77,109                      | 234,152             |
| Canada and Mexico | 59,861                    | 154,512             | 8,805                       | 79,336              |
| Middle East       | 88,962                    | 141,243             | 88,962                      | 43,907              |
| Other             | 105,193                   | 298,597             | 81,628                      | 128,985             |
|                   | <b>\$ 6,117,796</b>       | <b>\$ 8,025,474</b> | <b>\$ 3,371,112</b>         | <b>\$ 4,882,275</b> |

**12. Fair Value of Financial Instruments**

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:

**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.

**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.

| <b>December 31, 2009</b>  | <b>Carrying</b> | <b>Fair Value</b> |
|---------------------------|-----------------|-------------------|
|                           | <b>Amount</b>   |                   |
| Cash                      | \$ 9,757,428    | \$ 9,757,428      |
| Trade accounts receivable | 2,243,612       | 2,243,612         |
| Trade accounts payable    | 1,207,052       | 1,207,052         |
| Note receivable           | 900,000         | 900,000           |

**Table of Contents**

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

(Information with respect to interim periods is unaudited)

**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 May 2009, the FASB issued guidance now codified under ASC Topic 855-10, which requires an entity, after the balance sheet date, to evaluate events or transactions that may occur for potential recognition or disclosure in its financial statements. ASC Topic 855-10 determines the circumstances under which the entity shall recognize these events or transactions in its financial statements and provides the disclosures that an entity shall make about them including disclosing the date through which the entity evaluated these events or transactions, as well as whether that date is the date the entity's financial statements were issued or the date the financial statements were available to be issued. The guidance under ASC Topic 855-10 became effective for the Company as of June 30, 2009. In connection with the adoption, we have included a disclosure to address the date through which we have evaluated subsequent events.

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 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 December 31, 2009.

**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 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.

Six months ended December 31, 2009 and 2008.

**Net sales:** Net sales of the Company's medical device products and laboratory and scientific products decreased \$1,907,678 to \$6,117,796 for the six months ended December 31, 2009 from \$8,025,474 for the six months ended December 31, 2008. This difference in net sales is due to a decrease in sales of medical device products of \$1,682,802 to \$4,836,131 for the six months ended December 31, 2009 from \$6,518,951 for the six months ended December 31, 2008. This difference in net sales is also due to a decrease in laboratory and scientific products sales of \$224,858 to \$1,281,665 for the six months ended December 31, 2009 from \$1,506,523 for the six months ended December, 2008. The decrease in sales of therapeutic medical device products was primarily attributable to sales of the Company's Neuroaspirator, European HIFU sales and AutoSonix product, partially offset by an increase in sales of the Company's bone scalpel product and Lysonix ultrasonic assisted liposuction product.

**Gross profit:** Gross profit increased to 46.6% for the six months ended December 31, 2009 from 40.8% for the six months ended December 31, 2008. Gross profit for medical device products increased to 52.5% for the six months ended December 31, 2009 from 44.6% for the six months ended December 31, 2008. Gross profit for laboratory and scientific products decreased to 24.1% for the six months ended December 31, 2009 from 24.2% for the six months ended December 31, 2008. Gross profit for medical device products was favorably impacted in the six months ended December 31, 2009 predominately due to a favorable product mix of higher margin bone scalpel products.

**Selling expenses:** Selling expenses increased \$587,916 to \$2,033,044 for the six months ended December 31, 2009 from \$1,445,128 for the six months ended December 31, 2008. Laboratory and scientific products selling expenses increased \$15,592. Selling expenses for medical device products increased \$572,324, primarily due to a higher headcount related to an expanded sales force.

**General and administrative expenses:** General and administrative expenses increased \$65,838 from \$2,772,734 in the six months ended December 31, 2008 to \$2,838,572 in the six months ended December 31, 2009 due to higher bonus expense.



**Table of Contents**

**Research and development expenses:** Research and development expenses increased \$247,711 from \$698,329 for the six months ended December 31, 2008 to \$946,040 for the six months ended December 31, 2009. Laboratory and scientific products research and development expenses increased approximately \$70,350 due to increased product support related to fume products. Research and development expenses for medical device products increased \$177,361, primarily due to increased headcount and consulting expenses.

**Other income (expense):** Other income for the six months ended December 31, 2009 was \$202,164 as compared to \$1,763,151 for the six months ended December 31, 2008. The decrease of \$1,560,987 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.

**Income taxes:** The effective tax rate was 41% for the six months ended December 31, 2009 as compared to an effective tax rate of 86.2% for the six months ended December 31, 2008. The 86.2% is predicated on the impact of permanent differences between accounting and taxable income for non-cash compensation and entertainment expenses.

Three months ended December 31, 2009 and 2008.

**Net sales:** Net sales of the Company's medical device products and laboratory and scientific products decreased \$1,511,163 to \$3,371,112 for the three months ended December 31, 2009 from \$4,882,275 for the three months ended December 31, 2008. This difference in net sales is due to a decrease in sales of medical device products of \$1,305,734 to \$2,717,180 for the three months ended December 31, 2009 from \$4,022,914 for the three months ended December 31, 2008. This difference in net sales is also due to a decrease in laboratory and scientific products sales of \$205,429 to \$653,932 for the three months ended December 31, 2009 from \$859,361 for the three months ended December 31, 2008. The decrease in sales of therapeutic medical device products was primarily attributable to sales of the Company's Neuroaspirator, SonicOne, European HIFU sales and AutoSonix product, partially offset by an increase in sales of the Company's bone scalpel product and Lysonix ultrasonic assisted liposuction product. The decrease in laboratory sales is attributable to lower fume cabinet sales.

**Gross profit:** Gross profit increased to 51.2% for the three months ended December 31, 2009 from 41.9% for the three months ended December 31, 2008. Gross profit for medical device products increased to 55.9% for the three months ended December 31, 2009 from 45.5% for the three months ended December 31, 2008. Gross profit for laboratory and scientific products increased to 31.8% for the three months ended December 31, 2009 from 24.9% for the three months ended December 31, 2008. Gross profit for medical device products was favorably impacted in the three months ended December 31, 2009 predominately due to a favorable product mix of higher margin bone scalpel products. The increase in gross profit in the December 2009 period for laboratory and scientific products is due to higher margins at Misonix due to lower fixed factory costs.

**Selling expenses:** Selling expenses increased \$436,829 to \$1,083,631 for the three months ended December 31, 2009 from \$646,802 for the three months ended December 31, 2008. Laboratory and scientific products selling expenses increased \$1,811. Selling expenses for medical device products increased \$435,018, primarily due to a higher headcount related to an expanded sales force.

**General and administrative expenses:** General and administrative expenses increased \$224,183 from \$1,269,133 in the three months ended December 31, 2008 to \$1,493,316 in the three months ended December 31, 2009 due to increased bonus and insurance expense.

**Table of Contents**

**Research and development expenses:** Research and development expenses increased \$145,874 from \$377,697 for the three months ended December 31, 2008 to \$523,571 for the three months ended December 31, 2009. Laboratory and scientific products research and development expenses increased approximately \$33,734 due to increased product support related to fume products. Research and development expenses for medical device products increased \$112,140, primarily due to increased headcount and consulting expenses.

**Other income (expense):** Other income for the three months ended December 31, 2009 was \$49,437 as compared to \$113,095 for the three months ended December 31, 2008. The decrease is related to increased royalty expenses.

**Income taxes:** The effective tax rate was 67% for the three months ended December 31, 2009, as compared to an effective tax rate of 33.1% for the three months ended December 31, 2008. The 67% 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.

**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 December 31, 2009 and June 30, 2009 was \$15,180,442 and \$7,768,000, respectively. For the six months ended December 31, 2009, cash used in operations totaled \$1,482,843. For the six months ended December 31, 2009, cash used in investing activities totaled \$850,265. For the six months ended December 31, 2009, cash used in financing activities was \$2,889,919.

**Revolving Credit Facilities**

On December 29, 2006, the Company and its subsidiaries, Acoustic Marketing Research, Inc. d/b/a Sonora Medical Systems and Hearing Innovations, Inc., and Wells Fargo Bank entered into a (i) Credit and Security Agreement and a (ii) Credit and Security Agreement Export-Import Subfacility (collectively referred to as the Credit Agreements). The aggregate credit limit under the Credit Agreements was \$8,000,000 consisting of a revolving facility in the amount of up to \$8,000,000. Up to \$1,000,000 of the revolving facility was available under the Export-Import Agreement as a subfacility for Export-Import working capital financing. All credit facilities under the Credit Agreements matured on December 29, 2009. Accordingly, the Credit Agreements expired on December 29, 2009. All amounts outstanding were repaid.

**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.

**Other**

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

**Table of Contents**

**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.**

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 December 31, 2009 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 December 31, 2009 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 Annual Report on Form 10-K for the year ended June 30, 2009. There have been no material changes from the risk factors disclosed in that Form 10-K.

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

At the Company's Annual Meeting of Shareholders, held on December 8, 2009, Messrs. Howard Alliger, John W. Gildea, Michael A. McManus, Jr., Dr. Charles Miner III, T. Guy Minetti and Thomas F. O'Neill were elected as Directors for a one-year term. The votes were as follows: Mr. Alliger votes for 5,549,687; votes withheld 877,272. Mr. Gildea votes for 6,090,494; votes withheld 336,465. Mr. McManus votes for 5,544,587; votes withheld 882,372. Dr. Miner votes for 6,090,494; votes withheld 336,465. Mr. Minetti votes for 6,159,093; votes withheld 267,866. Mr. O'Neill votes for 6,090,494; votes withheld 336,465.

The shareholders approved the adoption of the Company's 2009 Employee Equity Incentive Plan by a vote of 1,540,187 shares for and 1,325,630 shares against, with 14,045 shares abstaining.

The shareholders approved the adoption of the Company's 2009 Non-Employee Director Stock Option Plan by a vote of 1,477,457 shares for and 1,388,670 shares against, with 13,735 shares abstaining.

**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: February 16, 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