MISONIX INC
Form 10-Q
February 05, 2014

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended December 31, 2013

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 (State or other jurisdiction of incorporation or organization)	11-2148932 (I.R.S. Employer Identification No.)
1938 New Highway, Farmingdale, NY (Address of principal executive offices)	11735 (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 x 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 x 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

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 February 5, 2014
Common Stock, $.01 par value	7,234,536

MISONIX, INC.

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

MISONIX, INC. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2013 (unaudited)		June 30, 2013 (derived from audited financial statements)	
Assets				
Current assets:				
Cash and cash equivalents	$	5,033,526	$	5,806,437
Accounts receivable, less allowance for doubtful accounts of $244,641 and $214,641, respectively		2,870,988		2,974,641
Inventories, net		3,969,972		4,034,477
Prepaid expenses and other current assets		209,898		387,371
Total current assets		12,084,384		13,202,926
Property, plant and equipment, net		1,304,998		1,326,586
Goodwill		1,701,094		1,701,094
Intangible and other assets		1,030,995		1,129,321
Total assets	$	16,121,471	$	17,359,927
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	$	1,154,838	$	2,208,999
Accrued expenses and other current liabilities		1,062,988		1,276,963
Total current liabilities		2,217,826		3,485,962
Deferred lease liability		20,212		23,811
Deferred income		75,072		72,934
Total liabilities		2,313,110		3,582,707
Commitments and contingencies (Note 8)				
Stockholders' equity:				
Common stock, $.01 par value-shares authorized 20,000,000, 7,274,596 and 7,233,884 shares issued and 7,197,036 and 7,156,324 shares outstanding, respectively		72,746		72,339
Additional paid-in capital		27,444,957		26,989,559
Accumulated deficit		(13,298,349)		(12,873,685)
Treasury stock, at cost, 77,560 shares		(410,993)		(410,993)
Total stockholders' equity		13,808,361		13,777,220
Total liabilities and stockholders' equity	$	16,121,471	$	17,359,927

See Accompanying Notes to Consolidated Financial Statements.

3

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

	For the six months ended December 31, 2013		2012	
Net sales	$	7,197,643	$	8,044,756
Cost of goods sold		2,574,739		3,470,864
Gross profit		4,622,904		4,573,892
Operating expenses:				
Selling expenses		3,512,529		3,004,149
General and administrative expenses		2,342,241		2,135,058
Research and development expenses		907,907		763,388
Total operating expenses		6,762,677		5,902,595
Loss from operations		(2,139,773)		(1,328,703)
Other income (expense):				
Interest income		38		38
Royalty income and license fees		1,722,186		745,064
Royalty expense		-		(5,113)
Other		(11,565)		(26,185)
Total other income		1,710,659		713,804
Loss from continuing operations before income taxes		(429,114)		(614,899)
Income tax expense		5,500		3,829
Net loss from continuing operations		(434,614)		(618,728)
Discontinued operations:				
Income from discontinued operations net of tax expense of $0 and $0, respectively		9,950		9,793
Net income from discontinued operations		9,950		9,793
Net loss	$	(424,664)	$	(608,935)
Net loss per share from continuing operations - Basic	$	(0.06)	$	(0.09)
Net income per share from discontinued operations - Basic		-		-
Net loss per share - Basic	$	(0.06)	$	(0.09)
Net loss per share from continuing operations - Diluted	$	(0.06)	$	(0.09)
Net income per share from discontinued operations - Diluted		-		-
Net loss per share - Diluted	$	(0.06)	$	(0.09)
Weighted average shares - Basic		7,189,136		7,012,734
Weighted average shares - Diluted		7,189,136		7,012,734

See Accompanying Notes to Consolidated Financial Statements.

4

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

	For the three months ended December 31, 2013		2012	
Net sales	$	4,122,059	$	3,474,231
Cost of goods sold		1,229,409		1,626,965
Gross profit		2,892,650		1,847,266
Operating expenses:				
Selling expenses		1,683,699		1,545,585
General and administrative expenses		1,120,926		1,092,726
Research and development expenses		435,019		366,257
Total operating expenses		3,239,644		3,004,568
Loss from operations		(346,994)		(1,157,302)
Other income (expense):				
Interest income		19		25
Royalty income and license fees		809,392		522,385
Royalty expense		-		(1,415)
Other		(5,304)		(18,608)
Total other income		804,107		502,387
Income/(loss) from continuing operations before income taxes		457,113		(654,915)
Income tax expense		2,750		2,329
Net income/(loss) from continuing operations		454,363		(657,244)
Discontinued operations:				
Income from discontinued operations net of tax expense of $0 and $0, respectively		4,975		3,475
Net income from discontinued operations		4,975		3,475
Net income/(loss)	$	459,338	$	(653,769)
Net income/(loss) per share from continuing operations - Basic	$	0.06	$	(0.09)
Net income per share from discontinued operations - Basic		-		-
Net income/(loss) per share - Basic	$	0.06	$	(0.09)
Net income/(loss) per share from continuing operations - Diluted	$	0.06	$	(0.09)
Net income per share from discontinued operations - Diluted		-		-
Net income/(loss) per share - Diluted	$	0.06	$	(0.09)
Weighted average shares - Basic		7,195,406		7,020,107
Weighted average shares - Diluted		7,712,903		7,020,107

See Accompanying Notes to Consolidated Financial Statements.

MISONIX, INC. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)

For the six months ended December 31, 2013

	Common Stock, $.01 Par Value		Treasury Stock				
	Number of shares	Amount	Number of shares	Amount	Additional paid-in capital	Accumulated deficit	Total stockholders' equity
Balance, June 30, 2013	7,233,884	$ 72,339	(77,560)	$ (410,993)	$ 26,989,559	$ (12,873,685)	$ 13,777,220
Net loss/comprehensive loss	-	-	-	-	-	(424,664)	(424,664)
Proceeds from exercise of stock options	40,712	407	-	-	130,148	-	130,555
Stock-based compensation	-	-	-	-	325,250	-	325,250
Balance, December 31, 2013	7,274,596	$ 72,746	(77,560)	$ (410,993)	$ 27,444,957	$ (13,298,349)	$ 13,808,361

See Accompanying Notes to Consolidated Financial Statements.

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

	For the six months ended December 31, 2013		2012	
Operating activities				
Net loss from continuing operations	$	(434,614)	$	(618,728)
Adjustments to reconcile net loss to net cash (used in)/ provided by continuing operating activities:				
Depreciation and amortization and other non-cash items		459,449		365,092
Bad debt expense		30,000		28,902
Stock-based compensation		325,250		220,979
Deferred income		(3,655)		(22,106)
Deferred lease liability		(3,599)		407
Changes in operating assets and liabilities:				
Accounts receivable		73,653		800,649
Inventories		40,631		206,376
Prepaid expenses and other assets		226,765		163,306
Accounts payable, accrued expenses and other non-cash items		(1,262,343)		(438,811)
Net cash (used in)/provided by operating activities		(548,463)		706,066
Investing activities				
Acquisition of property, plant and equipment		(292,945)		(134,908)
Additional patents		(72,008)		(42,775)
Net cash used in investing activities		(364,953)		(177,683)
Financing activities				
Proceeds from exercise of stock options		130,555		43,856
Net cash provided by financing activities		130,555		43,856
Cash flows from discontinued operations				
Net cash provided by operating activities		9,950		9,793
Net cash provided by discontinued operations		9,950		9,793
Net (decrease)/increase in cash and cash equivalents		(772,911)		582,032
Cash and cash equivalents at beginning of period		5,806,437		6,273,015
Cash and cash equivalents at end of period	$	5,033,526	$	6,855,047
Supplemental disclosure of cash flow information:				
Cash paid for:				
Income taxes	$	11,450	$	11,449

See Accompanying Notes to Consolidated Financial Statements.

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K for the year ended June 30, 2013 (“2013 Annual Report”) of MISONIX, INC. (“Misonix” or the “Company”). A summary of the Company’s significant accounting policies is identified in Note 1 of the notes to the consolidated financial statements included in the Company’s 2013 Annual Report. There have been no changes in the Company’s significant accounting policies subsequent to June 30, 2013.

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 pursuant to the requirements of the U.S. Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

The consolidated financial statements of the Company include the accounts of Misonix and its 100% owned subsidiaries, Fibra-Sonics (NY) Inc. and Hearing Innovations, Inc. All significant intercompany balances and transactions have been eliminated.

Organization and Business

Misonix is a surgical device company that designs, manufactures and markets innovative therapeutic ultrasonic products worldwide for spine surgery, skull-based surgery, neurosurgery, wound debridement, cosmetic surgery, laparoscopic surgery and other surgical applications.

The Company’s revenues are generated from various regions throughout the world. Sales by the Company outside the United States are made primarily through distributors. Sales made in the United States are made primarily through representative agents. The following is an analysis of net sales from continuing operations by geographic region:

	Three months ended December 31,			Six months ended December 31,	
	2013	2012		2013	2012
United States	$ 1,827,543	$ 1,635,550	United States	$ 3,408,813	$ 4,085,160
Australia	32,013	141,774	Australia	75,353	281,674
Europe	369,701	958,388	Europe	753,291	1,720,299
Asia	870,793	361,556	Asia	1,337,060	783,783
Canada and Mexico	347,640	29,922	Canada and Mexico	432,345	255,982
South America	434,983	108,462	South America	710,604	406,388
South Africa	72,118	105,584	South Africa	165,694	312,267
Middle East	167,268	132,995	Middle East	314,483	199,203
	$ 4,122,059	$ 3,474,231		$ 7,197,643	$ 8,044,756

Discontinued Operations

Laboratory and Forensic Safety Products Business

On October 19, 2011, Misonix sold its Laboratory and Forensic Safety Products business, which comprised substantially all of the Laboratory and Scientific Products segment, to Mystaire, Inc. for $1.5 million in cash plus a potential additional payment of up to an aggregate $500,000 based upon 30% of net sales in excess of $2.0 million for each of the three years following the closing (the "earn-out"). The earn-out will not be factored into the gain on sale until it is earned by Misonix. As of December 31, 2013, no earn-out has been recorded.

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

High Intensity Focused Ultrasound Technology

In consideration for the May 2010 sale of the rights to its high intensity focused ultrasound technology to USHIFU LLC ("USHIFU"), Misonix will receive up to approximately $5.8 million, paid out of an earn-out of 7% of gross revenues received by USHIFU related to the business being sold up to the time the Company has received the first $3 million and thereafter 5% of the gross revenues up to the $5.8 million. Commencing 90 days after each December 31st and beginning December 31, 2011 the payments will be the greater of (a) $250,000 or (b) 7% of gross revenues received up to the time the Company has received the first $3 million and thereafter 5% of gross revenues up to the $5.8 million. Total payments through December 31, 2013 were $504,788.

Results of Discontinued Operations

	For the three months ended December 31,		For the six months ended December 31,	
	2013	2012	2013	2012
Revenues	$ 4,975	$ 4,975	$ 9,950	$ 9,950
Income from discontinued operations, before tax	$ 4,975	$ 3,475	$ 9,950	$ 9,793
Income tax expense	-	-	-	-
Net income from discontinued operations, net of tax	$ 4,975	$ 3,475	$ 9,950	$ 9,793

Accounts Receivable

Accounts receivable, principally trade, are generally due within 30 to 90 days and are stated at amounts due from customers, net of an allowance for doubtful accounts. The Company performs ongoing credit evaluations and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. The Company continuously monitors aging reports, collections and payments from customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that the same credit loss rates will be experienced in the future. The Company writes off accounts receivable when they become uncollectible.

Reclassifications

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

2. Income (Loss) Per Share of Common Stock

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

9

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

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 December 31,		For the three months ended December 31,	
	2013	2012	2013	2012
Basic shares	7,189,136	7,012,734	7,195,406	7,020,107
Dilutive effect of stock options	-	-	517,497	-
Diluted shares	7,189,136	7,012,734	7,712,903	7,020,107

Excluded from the calculations of diluted EPS are options to purchase 543,080 shares of common stock for the three months ended December 31, 2013. The excluded shares are any share for 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 six months ended December 31, 2013 and six and three months ended December 31, 2012 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 are outstanding options to purchase 1,831,829 and 1,922,905 shares of common stock for the six months ended December 31, 2013 and the three and six months ended December 31, 2012, respectively.

3. Comprehensive (Loss)/Income

Total comprehensive loss, which includes results of discontinued operations, was $424,664 and $608,935 for the six months ended December 31, 2013 and 2012, respectively. Total comprehensive gain/(loss) was $459,338 and ($653,769) for the three month period ended December 31, 2013 and 2012, respectively. There are no components of comprehensive (loss)/income other than net (loss)/income for all periods presented.

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 immediate 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 six month periods ended December 31, 2013 and 2012, the Company granted options to purchase 324,000 and 342,500 shares of the Company’s common stock, respectively.

Stock-based compensation expense for the six month periods ended December 31, 2013 and 2012 was approximately $325,000 and $221,000, respectively. Compensation expense is recognized in the general and administrative expenses line item of the Company’s consolidated statements of operations on a straight-line basis over the vesting periods. As of December 31, 2013, there was approximately $2,143,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 3.2 years.

Cash in the amount of $130,555 was received from the exercise of stock options for the six months ended December 31, 2013.

10

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

The fair values of the options granted during the six months ended December 31, 2013 and 2012 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 December 31,					
	2013			2012		
Risk-free interest rate		3.0	%		2.5	%
Expected option life in years		6.5			6.5	
Expected stock price volatility		76.09	%		75.1	%
Expected dividend yield		0.0	%		0.0	%
Weighted-average fair value of options granted	$	3.95		$	2.94	

The expected option term is based upon the number of years the Company estimates the option will be outstanding based on historical exercises and terminations. The expected volatility for the expected life of the options is determined using historical price changes of the Company's stock over a period equal to that of the expected life of the options. The risk free rate is based upon the U.S. Treasury yield in effect at the time of the grant. 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, 2013 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, 2013	1,729,991	3.65			
Granted	324,000	4.94			
Exercised	(40,712)	3.21			
Forfeited	(19,250)	4.64			
Expired	(162,200)	4.67			
Outstanding as of December 31, 2013	1,831,829	3.78	5.6	$	3,644,848
Exercisable and vested at December 31, 2013	1,101,555	3.68	4.3	$	2,353,430
Available for grant at December 31, 2013	549,975				

(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, 2013 or if exercised, the exercise dates, exceeds the exercise prices of the respective options.

11

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

5. Income Taxes

For the six months ended December 31, 2013, the Company recorded an income tax expense in continuing operations of $5,500.

For the six months ended December 31, 2013 and 2012, the effective rate of (1%) on continuing operations varied from the U.S. federal statutory rate primarily due to permanent book tax differences, state taxes and a change in the valuation allowance.

The Company established a valuation against the deferred tax asset in prior years when management concluded that it is more likely than not that the deferred tax asset may not be fully realized. Management's deferred tax asset assessment is unchanged as of December 31, 2013.

As of December 31, 2013 and June 30, 2013, the Company has no material unrecognized tax benefits or accrued interest and penalties.

6. Inventories

Inventories are summarized as follows:

	December 31, 2013		June 30, 2013	
Raw material	$	2,029,216	$	2,641,982
Work-in-process		604,841		394,629
Finished goods		2,797,511		2,358,943
		5,431,568		5,395,554
Less valuation reserve		1,461,596		1,361,077
	$	3,969,972	$	4,034,477

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

	December 31, 2013		June 30, 2013	
Accrued payroll and vacation	$	406,279	$	456,095
Accrued bonuses		100,000		225,000
Accrued commissions		208,000		200,678
Accrued professional and legal fees		58,954		70,450
Deferred income		127,190		146,038
Other		162,565		178,702
	$	1,062,988	$	1,276,963

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

8. Commitments and Contingencies

The Company and its subsidiaries are from time to time involved in ordinary and routine litigation. Management presently believes that the ultimate outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's financial position, cash flows or result of operations. Nevertheless, litigation is subject to inherent uncertainties and an unfavorable ruling could occur. An unfavorable ruling could include money damages and in such event, could result in a material adverse impact on the Company's results of operations in the year in which the ruling occurs.

On July 19, 2011, Misonix entered into a Distribution Agreement (the "Distribution Agreement") with Puricore, Inc. ("Puricore"). Pursuant to the Distribution Agreement, the Company had been granted the right to distribute PuriCore's Vashe ® solution products in the United States, on a private label basis and known as the Misonix Soma product, as an antibacterial, antimicrobial irrigating solution for the treatment of human wound care in conjunction with therapeutic ultrasonic procedures (the "Field"). PuriCore had agreed, subject to modification, not to sell the products that were the subject of the Distribution Agreement (the "Licensed Products") to any other therapeutic ultrasound company for distribution in the Field in the United States ("Exclusivity"). The Company had agreed not to sell or distribute in the United States in the Field any irrigating solution that has anti-microbial properties other than the Licensed Products so long as the Company had Exclusivity.

During our fiscal fourth quarter 2013, the Company sent a notice to terminate the Distribution Agreement due to management's belief that the products subject to the Distribution Agreement were non-conforming. Puricore disputed the Company's ability to terminate the Distribution Agreement. On October 11, 2013, the Company and Puricore mutually terminated the Distribution Agreement and signed a Settlement Agreement resolving all issues without the payment of any monies by either party. A reversal of the previously accrued and unpaid contractual minimum gross profit requirement in the amount of $439,508 was made through cost of goods sold in the quarter ended December 31, 2013 as a result of the Settlement Agreement.

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

9. 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 December 31, 2013 and June 30, 2013:

December 31, 2013	Carrying Amount	Fair Value
Cash and cash equivalents	$ 5,033,526	$ 5,033,526
Trade accounts receivable	2,870,988	2,870,988
Trade accounts payable	1,154,838	1,154,838

June 30, 2013	Carrying Amount	Fair Value
Cash and cash equivalents	$ 5,806,437	$ 5,806,437
Trade accounts receivable	2,974,641	2,974,641
Trade accounts payable	2,208,999	2,208,999

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 and cash equivalents

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.

Non-financial assets and liabilities

Certain non-financial assets and liabilities, principally goodwill, are measured at fair value on a non-recurring basis; that is the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when evidence of impairment exists. At December 31, 2013, no fair value adjustments or material fair value measurements were required for non-financial assets or liabilities.

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

10. Goodwill and Intangible Assets

Goodwill is not amortized. We review goodwill for impairment annually and whenever events or changes indicate that the carrying value of an asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of significant assets or product lines. Application of these impairment tests requires significant judgments, including estimation of cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur and determination of our weighted-average cost of capital. We primarily use a discounted cash flow model in determining fair value, which consists of level three inputs. Changes in the projected cash flows and discount rate estimates and assumptions underlying the valuation of goodwill could materially affect the determination of fair value at acquisition or during subsequent periods when tested for impairment. The Company determined that there were no indicators that the recorded goodwill was impaired as of December 31, 2013 which required further testing.

The cost of acquiring or processing patents is capitalized. This amount is being amortized using the straight-line method over the estimated useful lives of the underlying assets, which is approximately 17 years. Net patents reported in intangible and other assets totaled $599,789 and $568,823 at December 31, 2013 and June 30, 2013, respectively. Accumulated amortization totaled $595,965 and $554,923 at December 31, 2013 and June 30, 2013, respectively. Amortization expense for the three month periods ended December 31, 2013 and 2012 was approximately $21,000 and $18,000, respectively. Amortization expense for the six month periods ended December 31, 2013 and 2012 was approximately $41,000 and $35,000, respectively.

Net customer relationships reported in intangible and other assets totaled $280,000 and $360,000 at December 31, 2013 and June 30, 2013, respectively. Accumulated amortization amounted to $520,000 at December 31, 2013 and $440,000 at June 30, 2013. Amortization expense for the three month periods ended December 31, 2013 and 2012 was $40,000. Amortization expense for the six month periods ended December 31, 2013 and 2012 was $80,000. Customer relationships are amortized on a straight-line basis over a five year period.

The following is a schedule of estimated future amortization expense as of December 31, 2013:

	Patents		Customer Relationships	
2014	$	44,701	$	80,000
2015		81,224		160,000
2016		75,707		40,000
2017		73,524		-
2018		70,467		-
Thereafter		254,166		-
	$	599,789	$	280,000

11. Recent Accounting Pronouncements

There have been no recently issued pronouncements that have had or are expected to have a material impact on our financial statements.

15

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

12. Related Party Transactions

Stavros G. Vizirgianakis was appointed to the Company's Board of Directors on May 7, 2013. Mr. Vizirgianakis owns a controlling interest in MD Solutions Australasia PTY Ltd and a family member owns one hundred percent of Applied BioSurgical; both independent distributors for the Company. The Company's distribution agreements with these companies pre-date Mr. Vizirgianakis' appointment to the Board of Directors.

Set forth below is a table showing the Company's net sales and accounts receivable for the indicated time periods below:

For the six months ended December 31,

Applied Bio Surgical	2013		2012	
Sales	$	165,694	$	312,230
Accounts Receivable	$	29,425	$	108,069

MD Solutions Australasia PTY Ltd.	2013		2012	
Sales	$	75,353	$	280,679
Accounts Receivable	$	14,913	$	143,237

For the three months ended December 31,

Applied Bio Surgical	2013		2012	
Sales	$	72,118	$	105,547
Accounts Receivable	$	29,425	$	108,069

MD Solutions Australasia PTY Ltd.	2013		2012	
Sales	$	32,013	$	140,779
Accounts Receivable	$	14,913	$	143,237

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 and its subsidiaries, in which we refer to the Company 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 24, 2013, for the fiscal year ended June 30, 2013 ("2013 Form 10-K"). Item 7 of the 2013 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of December 31, 2013.

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, future economic, competitive and market conditions, and the outcome of legal proceedings as well as management business decisions.

Six months ended December 31, 2013 and 2012.

Net sales: Net sales decreased $847,113 to $7,197,643 for the six months ended December 31, 2013 from $8,044,756. The decrease in sales is due to lower BoneScalpel revenue of $248,041, lower SonaStar revenue of $301,935, lower service revenue of $172,451, lower SonicOne revenue of $24,109, lower AutoSonix revenue of $45,059, and other lower revenue of $55,518. However, there were 24 BoneScalpel units consigned in the United States during the six months ended December 31, 2013 compared to 5 BoneScalpel units for the same period in fiscal 2013. This resulted in an increase in domestic disposables.

Set forth below are tables showing the Company's net sales by (i) product category and (ii) geographic region for the six months ended December 31, 2013 and 2012:

	Six months ended December 31,					
	2013		2012		Variance	
BoneScalpel	$	3,456,880	$	3,704,921	$	(248,041)
SonicOne		1,005,026		1,029,135		(24,109)
SonaStar		2,324,161		2,626,096		(301,935)
Other		411,576		684,604		(273,028)
	$	7,197,643	$	8,044,756	$	(847,113)

	Six months ended December 31, 2013		2012	
United States	$	3,408,813	$	4,085,160
Australia		75,353		281,674
Europe		753,291		1,720,299
Asia		1,337,060		783,783
Canada and Mexico		432,345		255,982
South America		710,604		406,388
South Africa		165,694		312,267
Middle East		314,483		199,203
	$	7,197,643	$	8,044,756

Gross profit: Gross profit increased to 64.2% for the six months ended December 31, 2013 from 56.9% for the six months ended December 31, 2012. The increase is primarily related to the reversal of $439,508 of accrued costs related to the SOMA product in accordance with the Puricore Settlement Agreement (Note 8). The reversal of these costs increased gross profits by 6.12 percentage points.

Selling expenses: Selling expenses increased $508,380 to $3,512,529 for the six months ended December 31, 2013 from $3,004,149 for the six months end December 31, 2012. The increase in expenses is due to higher commission expenses of $243,970, higher depreciation expenses of $88,796, higher personnel expenses of $114,384, higher travel expenses of $51,188 and other higher expenses of $10,042.

General and administrative expenses: General and administrative expenses increased $207,183 to $2,342,241 for the six months ended December 31, 2013 from $2,135,058 for the six months ended December 31, 2012. The increase in general and administrative expenses is due to higher non-cash compensation expenses from the issuance of stock options of $104,271, higher legal expenses of $68,752 and higher accounting expenses of $40,053, partially offset by other lower expenses of $5,893.

Research and development expenses: Research and development expenses increased $144,519 to $907,907 for the six months ended December 31, 2013 from $763,388 for the six months ended December 31, 2012. The increase in expenses is related to higher product development material expenses of $58,494, higher personnel expenses of $45,524, higher amortization and telephone expense of $31,553 and other higher expenses of $9,148.

Other income (expense): Other income for the six months ended December 31, 2013 was $1,710,659 as compared to $713,804 for the six months ended December 31, 2012. The increase in other income of $996,855 is mainly due to an increase in royalty income of $977,122 from Covidien plc.

Income taxes: For the six months ended December 31, 2013, the Company recorded an effective tax rate of (1.0%) and (1.0%) for the six months ended December 31, 2012. The Company estimates its financial statement effective tax rate for the full year, inclusive of discontinued operations, to be approximately 1%. The actual effective rate for continuing operations may vary materially based on several factors including the realization of earn-outs recorded in discontinued operations and the related intraperiod tax allocation, the ratio of permanent differences to pretax income (loss), and a change in the valuation allowances as well as other factors.

Three months ended December 31, 2013 and 2012

Net sales: Net sales increased $647,828 to $4,122,059 for the three months ended December 31, 2013 from $3,474,231 for the three months ended December 31, 2012. The increase in sales is due to higher BoneScalpel sales of $504,532, higher SonaStar sales of $135,033 and higher SonicOne sales of $7,814. There were 12 BoneScalpel units consigned in the United Stated during the three month period ended December 31, 2013 compared to one 1

BoneScalpel unit for the same period in fiscal 2013.

Set forth below are tables showing the Company's net sales by (i) product category and (ii) geographic region for the three months ended September 30, 2013 and 2012:

	Three months ended December 31,					
	2013		2012		Variance	
BoneScalpel	$	2,108,292	$	1,603,760	$	504,532
SonicOne		536,063		528,249		7,814
SonaStar		1,188,450		1,053,417		135,033
Other		289,254		288,805		449
	$	4,122,059	$	3,474,231	$	647,828

	Three months ended December 31,			
	2013		2012	
United States	$	1,827,543	$	1,635,550
Australia		32,013		141,774
Europe		369,701		958,388
Asia		870,793		361,556
Canada and Mexico		347,640		29,922
South America		434,983		108,462
South Africa		72,118		105,584
Middle East		167,268		132,995
	$	4,122,059	$	3,474,231

Gross profit: Gross profit increased 70.2% for the three months ended December 31, 2013 from 53.2% for the three months ended December 31, 2012. The increase is primarily related to the reversal of $439,508 of accrued costs related to the SOMA product in accordance with the Puricore Settlement Agreement (Note 8) and a favorable mix of high and low margin deliveries mostly related to disposables. The reversal of these costs increased gross profit by 10.7 percentage points.

Selling expenses: Selling expenses increased $138,114 to $1,683,699 for the three months ended December 31, 2013 from $1,545,585 for the three months ended December 31, 2012. Selling expenses increased due to higher commission expenses of $132,088 due to increases in commissionable sales and other unfavorable expenses of $6,026.

General and administrative expenses: General and administrative expenses increased $28,200 to $1,120,926 for the three months ended December 31, 2013 from $1,092,726 for the three months ended December 31, 2012. The increase is related to higher non-cash compensation costs due to the issuance of stock options of $59,272 and other unfavorable expenses of $2,503, partially offset by lower legal expenses of $17,996 and lower employment fees of $15,579.

Research and development expenses: Research and development expenses increased $68,762 to $435,019 for the three months ended December 31, 2013 from $366,257 for the three months ended December 31, 2012. The increase in these expenses is related to higher temporary help expenses of $29,250, higher consulting expenses of $17,857, higher telephone expenses of $16,006 and other unfavorable expenses of $5,649.

Other income (expense): Other income for the three months ended December 31, 2013 was $804,107 as compared to $502,387 for the three months ended December 31, 2012. The increase in other income of $301,720 is mainly due to an increase in royalty income of $287,007 from Covidien plc.

Income taxes: For the three months ended December 31, 2013, the Company recorded an effective tax rate of .6%, compared to (.4%) for the three months ended December 31, 2012. The Company estimates its financial statement effective tax rate for the full year, inclusive of discontinued operations, to be approximately 1%. The actual effective rate for continuing operations may vary materially based on several factors including the realization of earn-outs recorded in discontinued operations and the related intraperiod tax allocation, the ratio of permanent differences to pretax income (loss), and a change in the valuation allowances as well as other factors.

PuriCore Settlement:

As previously disclosed, the Company had entered into a Product License and Distribution Agreement, dated as of July 19, 2011 (the "Distribution Agreement"), with PuriCore, Inc. ("PuriCore"). Pursuant to the Distribution Agreement, the Company had the right to distribute PuriCore's Vashe® solutions product in the United States on a private label basis under the name "Soma." Disputes between the Company and Puricore were finally resolved on October 11, 2013 when the parties executed a Settlement Agreement pursuant to which the Distribution Agreement was terminated with no additional payments required to be made by either Misonix or PuriCore (the "Settlement Agreement"). A reversal of the previously accrued and unpaid contractual minimum gross profit requirement in the amount of $439,508 was made through cost of goods sold in the quarter ended December 31, 2013 as a result of the Settlement Agreement.

Discontinued Operations

See Note 1 of the notes to consolidated financial statements included in Part I, Item 1 of this Report for a description of the discontinued operations. The following summarizes the results of the discontinued operations:

	For the three months ended December 31, 2013	2012	For the six months ended December 31, 2013	2012
Revenues	$ 4,975	$ 4,975	$ 9,950	$ 9,950
Income from discontinued operations, before tax	$ 4,975	$ 3,475	$ 9,950	$ 9,793
Income tax expense	-	-	-	-
Net income from discontinued operations, net of tax	$ 4,975	$ 3,475	$ 9,950	$ 9,793

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 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, and 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, 2013 and June 30, 2013 was $9,867,000 and $9,717,000, respectively. For the six months ended December 31, 2013, cash used in operations totaled $548,463, primarily related to lower accounts payable and other accrued expenses of $1,262,343, partially offset by depreciation and amortization of $459,449, and lower prepaid expenses and other assets of $226,765. For the six months ended December 31, 2013, cash used in investing activities was $364,953, primarily due to the acquisition of fixed assets and applications for additional patents. For the six months ended December 31, 2013, cash provided by financing activities was $130,555 from the exercise of stock options. For the six months ended December 31, 2013, cash provided by discontinued operations was $9,950.

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 are material to the Company.

Other

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

New Accounting Pronouncements

There have been no recently issued pronouncements that have or are expected to have a material impact on our financial statements. See note 11 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.

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 4. 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 December 31, 2013 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, 2013 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

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 2013 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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 5, 2014

MISONIX, INC.
(Registrant)

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

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