

MISONIX INC  
Form 10-Q  
May 10, 2011

**Table of Contents**

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

**(Mark One)**

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

For the quarterly period ended March 31, 2011

**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:

Class of Common Stock	Outstanding at May 10, 2011
-----------------------	--------------------------------

Common Stock, \$.01 par value

7,001,369

---

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

	<b>Page</b>
<b><u>Part I FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Balance Sheets as of March 31, 2011 (Unaudited) and June 30, 2010</u>	3
<u>Consolidated Statements of Operations Nine months ended March 31, 2011 and 2010 (Unaudited)</u>	4
<u>Consolidated Statements of Operations Three months ended March 31, 2011 and 2010 (Unaudited)</u>	5
<u>Consolidated Statement of Stockholders Equity Nine months ended March 31, 2011 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows Nine months ended March 31, 2011 and 2010 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</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 4. Controls and Procedures</u>	24
<b><u>Part II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	24
<u>Item 6. Exhibits</u>	24
<u>Signatures</u>	25
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

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

	<b>March 31, 2011</b>	June 30, 2010 (Derived from Audited Financial Statements)
	<b>(Unaudited)</b>	
Current Assets:		
Cash	\$ 7,584,475	\$ 9,900,605
Accounts receivable, less allowance for doubtful accounts of \$109,070 and \$123,346, respectively	1,859,026	2,335,653
Inventories, net	3,909,943	2,699,717
Prepaid expenses and other current assets	501,622	515,427
Notes receivable	210,000	1,075,105
Total current assets	14,065,066	16,526,507
Property, plant and equipment, net	922,285	500,215
Goodwill	1,701,094	1,701,094
Other assets	2,189,232	1,730,339
Total assets	\$ 18,877,677	\$ 20,458,155
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Notes payable	\$	\$ 177,679
Accounts payable	1,293,455	888,654
Accrued expenses and other current liabilities	1,132,039	1,000,523
Total current liabilities	2,425,494	2,066,856
Capital lease obligations	2,666	14,274
Deferred lease liability	9,830	
Deferred income	192,314	250,739
Total liabilities	2,630,304	2,331,869
Commitments and contingencies		
Stockholders equity:		
Common stock, \$.01 par value-shares authorized 20,000,000; 7,079,169 issued, and 7,001,369 outstanding	70,792	70,792
Additional paid-in capital	25,709,294	25,502,717

Accululated deficit	<b>(9,120,289)</b>	(7,034,799)
Treasury stock, 77,800 shares	<b>(412,424)</b>	(412,424)
Stockholders equity	<b>16,247,373</b>	18,126,286
Total liabilities and stockholders equity	<b>\$ 18,877,677</b>	<b>\$ 20,458,155</b>

*See Accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

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

	<b>For the nine months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net sales	<b>\$ 10,274,831</b>	\$ 9,092,322
Cost of goods sold	<b>4,877,847</b>	4,860,539
Gross profit	<b>5,396,984</b>	4,231,783
Operating expenses:		
Selling expenses	<b>3,098,967</b>	2,649,699
General and administrative expenses	<b>3,334,338</b>	3,824,640
Research and development expenses	<b>1,303,121</b>	1,387,133
Total operating expenses	<b>7,736,426</b>	7,861,472
Loss from operations	<b>(2,339,442)</b>	(3,629,689)
Other income (expense):		
Interest income	<b>93</b>	28,178
Interest expense	<b>(5,494)</b>	(48,176)
Royalty income and license fees	<b>487,622</b>	481,417
Royalty expense	<b>(51,324)</b>	(83,926)
Recovery of Focus Surgery, Inc. investment		693,044
Other	<b>146,796</b>	(20,320)
Total other income	<b>577,693</b>	1,050,217
Loss from continuing operations before income taxes	<b>(1,761,749)</b>	(2,579,472)
Income tax (benefit)	<b>46,100</b>	(976,435)
Net loss from continuing operations	<b>(1,807,849)</b>	(1,603,037)
Discontinued operations:		
Net (loss) income from discontinued operations net of \$0 and tax of \$358,634	<b>(277,641)</b>	506,367
Net loss from sale of discontinued operations net of tax of \$0 and \$957,937		(369,848)
Noncontrolling interest in discontinued operations, net of income tax		66,201
Total net (loss) income from discontinued operations	<b>(277,641)</b>	<b>202,720</b>
Net loss attributable to Misonix, Inc. shareholders	<b>(2,085,490)</b>	\$ (1,400,317)

Edgar Filing: MISONIX INC - Form 10-Q

Net loss per share from continuing operations attributable to Misonix, Inc. shareholders Basic	\$	<b>(0.26)</b>	\$	(0.23)
Net (loss) income per share from discontinued operations Basic		<b>(0.04)</b>		0.03
Net loss per share attributable to Misonix, Inc. shareholders Basic	\$	<b>(0.30)</b>	\$	(0.20)
Net loss per share from continuing operations attributable to Misonix, Inc. shareholders Diluted	\$	<b>(0.26)</b>	\$	(0.23)
Net (loss) income per share from discontinued operations Diluted		<b>(0.04)</b>		0.03
Net loss per share attributable to Misonix, Inc. shareholders Diluted	\$	<b>(0.30)</b>	\$	(0.20)
Weighted Average Shares Basic		<b>7,001,369</b>		7,001,369
Weighted Average Shares Diluted		<b>7,001,369</b>		7,001,369
<i>See Accompanying Notes to Consolidated Financial Statements.</i>				



**Table of Contents**

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

	<b>For the three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net sales	<b>\$ 3,593,154</b>	\$ 3,313,131
Cost of goods sold	<b>1,720,037</b>	1,596,264
Gross profit	<b>1,873,117</b>	1,716,867
Operating expenses:		
Selling expenses	<b>1,079,267</b>	671,213
General and administrative expenses	<b>1,007,051</b>	1,021,476
Research and development expenses	<b>414,342</b>	441,093
Total operating expenses	<b>2,500,660</b>	2,133,782
Loss from operations	<b>(627,543)</b>	(416,915)
Other income (expense):		
Interest income	<b>18</b>	101
Interest expense	<b>(415)</b>	(2,517)
Royalty income and license fees	<b>135,920</b>	172,534
Royalty expense	<b>(11,065)</b>	(18,870)
Recovery of Focus Surgery, Inc. investment		693,044
Other	<b>106,963</b>	(11,609)
Total other income	<b>231,421</b>	832,683
Loss from continuing operations before income taxes	<b>(396,122)</b>	415,768
Income tax	<b>4,000</b>	206,242
Net (loss) income from continuing operations	<b>(400,122)</b>	209,526
Discontinued operations:		
Net (loss) from discontinued operations net of \$0 and a tax benefit of (\$111,763)	<b>(131,356)</b>	(258,850)
Net loss from sale of discontinued operations net of tax of \$0 and \$0		(257,029)
Noncontrolling interest in discontinued operations, net of income tax		24,861
Total net loss from discontinued operations	<b>(131,356)</b>	(491,018)
Net loss attributable to Misonix, Inc. shareholders	<b>(531,478)</b>	\$ (281,492)

Edgar Filing: MISONIX INC - Form 10-Q

Net (loss) income per share from continuing operations attributable to Misonix, Inc. shareholders Basic	\$	<b>(0.06)</b>	\$	0.03
Net loss per share from discontinued operations Basic		<b>(0.02)</b>		(0.07)
Net loss per share attributable to Misonix, Inc. shareholders Basic	\$	<b>(0.08)</b>	\$	(0.04)
Net (loss) income per share from continuing operations attributable to Misonix, Inc. shareholders Diluted	\$	<b>(0.06)</b>	\$	0.03
Net loss per share from discontinued operations Diluted		<b>(0.02)</b>		(0.07)
Net loss per share attributable to Misonix, Inc. shareholders Diluted	\$	<b>(0.08)</b>	\$	(0.04)
Weighted Average Shares Basic		<b>7,001,369</b>		7,001,369
Weighted Average Shares Diluted		<b>7,001,369</b>		7,038,385
<i>See Accompanying Notes to Consolidated Financial Statements.</i>				

**Table of Contents**

**MISONIX, INC and Subsidiaries**  
**Consolidated Statement of Stockholders' Equity**  
**(Unaudited)**  
**Nine months ended March 31, 2011**

	Common Stock \$.01 Par Value		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
<b>Balance, June 30, 2010</b>	<b>7,079,169</b>	<b>\$ 70,792</b>	<b>(77,800)</b>	<b>\$ (412,424)</b>	<b>\$ 25,502,717</b>	<b>\$ (7,034,799)</b>	<b>\$ 18,126,286</b>
Net loss\comprehensive loss						(2,085,490)	(2,085,490)
Stock-based compensation					206,577		206,577
<b>Balance, March 31, 2011</b>	<b>7,079,169</b>	<b>\$ 70,792</b>	<b>(77,800)</b>	<b>\$ (412,424)</b>	<b>\$ 25,709,294</b>	<b>\$ (9,120,289)</b>	<b>\$ 16,247,373</b>

*See Accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

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

	<b>For the nine months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>		
Net loss from continuing operations	\$ (1,807,849)	\$ (1,603,037)
Adjustments to reconcile net loss to net cash used in continuing operating activities:		
Depreciation and amortization	319,961	354,851
Bad debt expense	(31,130)	(6,475)
Deferred income tax benefit	(2,086)	(1,078,655)
Loss on disposal of property, plant and equipment	(28,949)	13,809
Stock-based compensation	206,577	197,825
Deferred income	(3,181)	(18,234)
Deferred lease liability	9,830	(28,953)
Recovery of Focus Surgery, Inc. investment		(693,044)
Changes in operating assets and liabilities:		
Accounts receivable	521,120	809,209
Inventories	(1,079,789)	358,591
Income taxes	(16,068)	(109,511)
Prepaid expenses and other current assets	(235,337)	(471,220)
Accounts payable and accrued expenses	478,311	475,719
Other	213,803	(964,419)
Net cash used in operating activities	(1,454,787)	(2,763,544)
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(584,200)	(906,013)
Acquisition of assets from Aesculap, Inc.	(929,880)	
Recovery of Focus Surgery, Inc. investment		693,044
Net cash used in investing activities	(1,514,080)	(212,969)
<b>Financing activities</b>		
Proceeds from short-term borrowings		9,514,892
Payments of short-term borrowings	(177,679)	(12,150,652)
Principal payments on capital lease obligations	(10,866)	(10,110)
Net cash used in financing activities	(188,545)	(2,645,870)
Cash flows from discontinued operations		
Net cash (used in) provided by operating activities	(277,641)	202,720
Net cash provided by investing activities	1,115,000	11,200,000

Net cash provided by discontinued operations	<b>837,359</b>	11,402,720
Effect of exchange rate changes on cash	<b>3,923</b>	(16,917)
Net (decrease) increase in cash	<b>(2,316,130)</b>	5,763,420
Cash at beginning of period	<b>9,900,605</b>	3,415,813
Cash at end of period	<b>\$ 7,584,475</b>	\$ 9,179,233

**Supplemental disclosure of cash flow information:**

Cash paid for:

Interest \$ 5,494 \$ 254,152Income taxes \$ 42,100 \$ 63,763*See Accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

**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 our Annual Report on Form 10-K for the year ended June 30, 2010 ( 2010 Annual Report ). 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 2010 Annual Report. There have been no changes in the Company's significant accounting policies subsequent to June 30, 2010.

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 MISONIX, INC. ( Misonix or the Company ) include the accounts of Misonix and its 100% owned subsidiaries, Hearing Innovations, Inc. ( Hearing Innovations ) and Fibra-Sonics (NY) Inc. ( F-S ). All significant intercompany balances and transactions have been eliminated.

**Organization and Business**

Misonix was incorporated under the laws of the State of New York on July 31, 1967 and some of its revenue producing activities, from 1967 to date, have been the manufacture and distribution of scientific and industrial ductless fume enclosure equipment. In 1992, the Company started research and development efforts towards formulating the ultrasonic medical device business, which currently is the Company's predominant business. Misonix's products are sold worldwide. In October 1996, the Company entered into licensing agreements to further develop one of its medical devices.

For the three and nine months ended March 31, 2011 and 2010, approximately 27%, 27%, 33% and 23%, respectively, of the Company's net sales were to foreign markets. Sales by the Company in major industrial countries are made primarily through distributors.

Hearing Innovations is located in Farmingdale, New York and is a development company with patented HiSonic ultrasonic technology for the treatment of profound deafness and tinnitus.

On October 7, 2010, the Company, F-S and Aesculap, Inc. ( Aesculap ) entered into a Termination, Amendment and Buy-Back Agreement to Distributor Agreement (the Termination Agreement ). Pursuant to the Termination Agreement, the parties agreed to terminate, as of October 15, 2010 (the Termination Date ), (i) Misonix's remaining obligations under the Distributor Agreement dated November 1999 between Aesculap and F-S, as amended (the Distributor Agreement ), and (ii) Aesculap's rights to sell procedure packs (the Sale Rights ) to the Sonastar Customers (as defined below). On the Termination Date, in consideration of the purchase and sale of (i) Aesculap's current service contracts ( Sonastar Contracts ) for the products (the Products ) that are the subject of the Distributor Agreement, customer list and customers currently evaluating the Products all with respect to the sale and servicing of the Products (the Customer List ) and (ii) the Sale Rights, on October 15, 2010, Misonix paid Aesculap \$800,000. Misonix will assume all rights, responsibilities and obligations pursuant to and under the (i) Sonastar Contracts and Customer List and (ii) the Sale Rights, including, without limitation, the sale of accessory Products and servicing and training of the Products to the customers with Sonastar Contracts (the Sonastar Customers ). Misonix also agreed to repurchase from Aesculap the current inventory of (i) new Products held by Aesculap at the price Aesculap paid for such Products and (ii) used Products held by Aesculap for demonstration and/or loaner purposes at the prices equal to Aesculap's book-value as of July 31, 2010 for such Products. The purchase price for the current inventory acquired was \$519,000 and is payable in four quarterly installments beginning on December 31, 2010. A payment of \$129,880 was made to Aesculap in January 2011. Aesculap also agreed to certain non-competition and non-solicitation restrictions for an eighteen (18) month period.



**Table of Contents**

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

The Company has determined that the acquisition did not constitute a business combination in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification 805, Business Combinations. Accordingly, it has been recorded as an asset acquisition with the aggregate cost of \$1,319,000 assigned to the assets acquired based upon their relative fair values. The Company has allocated \$259,000 of the cost to inventory, \$260,000 of the cost to equipment which will be amortized over a three year period on a straight-line basis and \$800,000 to customer relationships which will be amortized on a straight-line basis over a five year period.

**Discontinued Operations**

On August 4, 2009, the Company sold its Labcaire Systems, Ltd. ( Labcaire ) subsidiary to PuriCore International Limited ( PuriCore 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. As of March 31, 2011, the Company received the first installment. 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) was used to determine gain or loss on the sale and the remaining outstanding balance is included in other assets in the consolidated balance sheet, with the current portion reflected as a component of notes receivable. 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 not be recognized in determining the current gain or loss on the sale of Labcaire until the commission is paid. As of March 31, 2011, there were no commissions paid. For the nine months ended March 31, 2010, the Company recorded a pre-tax gain on the sale of Labcaire of \$762,221. Results of Labcaire operations have been reported as a discontinued operation for all periods presented.

On July 19, 2010, the Company received a Dispute Notice (the Dispute Notice ) from PuriCore Plc ( PuriCore ) with respect to the sale and purchase of the shares of Labcaire which was completed on August 4, 2009. PuriCore alleged that Misonix breached certain representations and warranties that could result in a reduction to the purchase price of approximately £1.6 million or approximately \$2.5 million. PuriCore subsequently amended its claim to £2.3 million or approximately \$3.5 million. The Company and PuriCore engaged in the mediation procedure provided for by the Stock Purchase Agreement, dated August 4, 2009 (the Agreement ), pursuant to which Labcaire was sold. The Company and PuriCore were not able to reach a satisfactory agreement by the conclusion of the mediation. On January 14, 2011, PuriCore Limited, a subsidiary of PuriCore, filed suit in the High Court of Justice, Queens Bench Division, Commercial Court, Royal Courts of Justice, London, England (Claim No. 2011-42) (the Lawsuit ). In the Lawsuit, PuriCore Limited claims damages from Misonix in respect of breach of warranties contained in the Agreement. PuriCore Limited alleges that the warranties made by Misonix in the Agreement were breached by virtue of various misstatements made in the course of the disclosure process prior to the completion of the Agreement . PuriCore Limited claims damages of £2,167,000 or approximately \$3,600,000, plus interest and its legal costs. The Company believes the Lawsuit is without merit and intends to vigorously defend its position. The Company s counsel believes that the Company has strong defenses to the allegations made in the Lawsuit. There can be no assurance, however, that the Company may not have to pay some amount to resolve PuriCore Limited s claims. The Company and PuriCore have agreed upon an amount for commissions applicable to the first year s sales of £190,000 or approximately \$285,000. This amount was due to be paid to Misonix on October 30, 2010. To date, the Company has not received such amount. Due to the uncertainty surrounding collectability of the commission as a result of the Dispute Notice, the Company has not recognized this amount in the consolidated financial statements.

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. ( Medical Imaging ) for a cash payment of \$8,000,000 (subject to a future adjustment based on net working capital, at the closing). On April 6, 2010, the Company paid \$257,029 to



Medical Imaging for the net difference of adjustments of working capital and the effect of income taxes. These amounts were reflected in discontinued operations in the June 30, 2010 audited financial statements. The Company also purchased at the closing of such transaction, utilizing \$1,200,000 of the proceeds, the remaining outstanding 5% of Sonora's shares. Sonora is engaged in the business of (i) selling, repairing and servicing new and used diagnostic ultrasound systems and consumable accessories used in conjunction therewith, (ii) selling, repairing, servicing and testing diagnostic ultrasound transducers, (iii) developing and selling equipment for testing ultrasound transducers, (iv) selling equipment used for cleaning and disinfecting ultrasound transducers including, but not limited to, transesophageal echocardiography probes, (v) selling equipment used for testing endoscopic probes, (vi) repairing and servicing MRI systems and parts and subsystems used therein, and (vii) performing training for the service and maintenance of diagnostic ultrasound and MRI systems, in each instance throughout the world. The net assets and results of Sonora operations have been reported as a discontinued operation for all periods presented.

**Table of Contents**

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

On May 28, 2010, Misonix announced the sale to USHIFU, LLC ( USHIFU ) of all of its rights to the High Intensity Focused Ultrasound ( HIFU ) technology together with other HIFU-related assets. In consideration for the sale, 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 businesses being sold, up to the time the Company has received the first \$3 million, and thereafter 5% of gross revenues up to the \$5.8 million. Commencing 90 days after each December 31<sup>st</sup> 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. Misonix will also be paid for 3 units in inventory of new Sonablate<sup>®</sup> 500 machines which totaled \$465,000. The obligation to pay for such machines was secured by a note due December 31, 2010. At December 31, 2010, the note was fully paid, and cash received is shown in the discontinued operations section of the Company's cash flow statements. At the closing of such transaction, USHIFU paid Misonix for inventory associated with manufacturing the Sonablate 500 and reimbursed Misonix for certain monies expended in connection with the HIFU Registry. The net assets and results of HIFU operations have been reported as a discontinued operation for all periods presented. Misonix retained all of its rights associated with the HIFU-related intellectual property and development assets purchased from ProRhythm, Inc. This intellectual property involves the development of new transducers and lenses to be used in the treatment of tissue using HIFU. This technology may be applied on a worldwide basis to a variety of organs not limited to kidney, liver, or breast tissue treatment.

Unless otherwise specified, disclosures in all other notes relate solely to the Company's continuing operations.

The following represents the results of Sonora, Labcaire, UKHIFU Limited ( UKHIFU) and Misonix HIFU Technologies Limited:

	For the three months ended March 31,		For the nine months ended March 31,	
	2011	2010	2011	2010
Revenues	\$	\$ 216,472	\$	\$ 4,478,238
(Loss) income from discontinued operations, before tax	\$ (131,356)	\$ (345,752)	\$ (277,641)	\$ 931,202
Gain on sale of Labcaire				762,221
Loss on sale of Sonora		(257,029)		(174,132)
Income tax (benefit) expense		(111,763)		1,316,571
(Loss) income from discontinued operations, net of tax	\$ (131,356)	\$ (491,018)	\$ (277,641)	\$ 202,720

For the three and nine months ended March 31, 2011, the Company expensed in discontinued operations \$172,722 of legal expenses associated with the lawsuit with Puricore Limited.

**Reclassification**

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

**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.



**Table of Contents**

**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 nine months ended March 31,		For the three months ended March 31,	
	2011	2010	2011	2010
Basic shares	7,001,369	7,001,369	7,001,369	7,001,369
Dilutive effect of stock options				37,016
Diluted shares	7,001,369	7,001,369	7,001,369	7,038,385

Excluded from the calculations of diluted EPS are options to purchase 1,649,860 shares of common stock for the three months ending March 31, 2010. The excluded shares are any share in which the average stock price for the quarter or year to date is less than the exercise price of the outstanding options in the period in which the Company has net income.

Diluted EPS for the nine and three months ended March 31, 2011 and the nine months ended March 31, 2010 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 1,810,550 and 1,848,510 shares for the nine and three months ended March 31, 2011 and the nine months ended March 31, 2010, respectively.

### 3. Comprehensive Loss

Total comprehensive loss was \$(2,085,490) and \$(1,400,317) for nine and three months ended March 31, 2011 and \$(531,478) and \$(281,492) for the nine and three months ended March 31, 2010, respectively. There are no components of comprehensive loss other than net loss 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 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 ending March 31, 2011 and 2010, the Company granted options to purchase 75,000 and 0 shares of the Company's common stock, respectively. During the nine month periods ended March 31, 2011 and 2010, the Company granted options to purchase 294,500 and 148,300 shares of the Company's common stock, respectively. Stock-based compensation expense for the nine month periods ended March 31, 2011 and 2010 was \$207,000 and \$198,000, respectively. Stock-based compensation for the three month periods ended March 31, 2011 and 2010 was \$76,000 and \$57,000, respectively. Compensation expense is recognized in the general and administrative expenses line item of the Company's statements of operations on a straight-line basis over the vesting periods. As of March 31, 2011, there was approximately \$712,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 2.9 years.

There was no cash received from the exercise of stock options for the nine and three month periods ended March 31, 2011 and 2010. 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.

**Table of Contents**

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

The fair values of the options granted during the periods ended March 31, 2011 and 2010 were estimated on the date of the grant using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions during the respective periods:

	For the nine months ended March 31,	
	2011	2010
Risk-free interest rate	4.1%	3.1%
Expected option life in years	6.5	6.5
Expected stock price volatility	77.9%	81.9%
Expected dividend yield	0%	0%
Weighted-average fair value of options granted	\$ 1.61	\$ 2.02

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 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 nine months ended March 31, 2011 were as follows:

	Number of Shares	Options		
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (a)
Outstanding as of June 30, 2010	1,848,510	\$ 4.99	5.3	
Granted	294,500	1.97		
Forfeited	(2,010)	1.67		
Expired	(330,450)	7.34		
Outstanding as of March 31, 2011	1,810,550	4.08	5.9	\$ 233,056
Exercisable and vested at March 31, 2011	1,256,163	\$ 4.93	4.3	\$ 53,971
Available for grant at March 31, 2011	666,894			

(a) Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying stock, based on the respective market prices at March 31, 2011 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, FS Acquisition Company and certain other stockholders of Focus Surgery, Inc. ( Focus ) entered into a Stock Purchase Agreement (the Focus Agreement ). The closing of the transactions contemplated by the Focus Agreement took place on July 1, 2008. Pursuant to the Focus Agreement, the Company sold to USHIFU the 2,500 shares of Series M Preferred Stock of Focus owned by the Company for a cash payment of \$837,500. The Company also received \$679,366, fifty percent (50%) of the outstanding principal and accrued interest of loans previously made by the Company to Focus, with the remaining fifty percent (50%) of such amount of

\$679,366 paid on January 4, 2010. Payment was recognized as a gain in the third quarter of the fiscal year ended June 30, 2010.

**Table of Contents**

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

**6. Income Taxes**

There are no federal, state or foreign audits in process as of March 31, 2011. The Company files state tax returns in New York. Its tax returns in New York have never been examined.

As of March 31, 2011 and June 30, 2010, the valuation allowance was determined by estimating the recoverability of the deferred tax assets. In assessing the reliability 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. 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 will not realize the benefits of these deductible differences, and has a full valuation allowance on deferred tax assets.

**7. Inventories**

	<b>March 31, 2011</b>	<b>June 30, 2010</b>
Raw material	<b>\$ 2,483,259</b>	1,997,730
Work-in-process	<b>1,372,204</b>	947,924
Finished goods	<b>548,735</b>	304,168
	<b>4,404,198</b>	3,249,822
Less valuation reserve – continuing operations	<b>494,255</b>	550,105
	<b>\$ 3,909,943</b>	2,699,717

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

	<b>March 31, 2011</b>	<b>June 30, 2011</b>
Accrued payroll and vacation	<b>452,286</b>	455,052
Accrued VAT and sales tax		21,693
Accrued bonus	<b>140,000</b>	202,852
Accrued commissions	<b>161,000</b>	43,000
Accrued professional and legal fees	<b>66,718</b>	24,176
Royalty expense	<b>126,208</b>	103,162
Foreign income tax payable		18,676
Deferred income	<b>79,245</b>	24,000
Current maturities of capital lease obligations	<b>15,340</b>	14,533
Other	<b>91,242</b>	93,379
	<b>\$ 1,132,039</b>	\$ 1,000,523

**Table of Contents**

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

**9. Commitments and Contingencies**

On July 19, 2010, the Company received a Dispute Notice from PuriCore with respect to the sale and purchase of shares of Labcaire which was completed on August 4, 2009. PuriCore alleged that Misonix breached certain representations and warranties that could result in reduction to the purchase price of approximately £1.6 million or approximately \$2.5 million. PuriCore subsequently amended its claim to £2.3 million or approximately \$3.5 million. The Company and PuriCore engaged in the mediation procedure provided for by the Agreement pursuant to which Labcaire was sold. The Company and PuriCore were not able to reach a satisfactory agreement by the conclusion of the mediation. On January 14, 2011, PuriCore Limited filed the Lawsuit. In the Lawsuit, PuriCore Limited claims damages from Misonix in respect of breach of warranties contained in the Agreement. PuriCore Limited alleges that the warranties made by Misonix in the Agreement were breached by virtue of various misstatements made in the course of the disclosure process prior to the completion of the Agreement. PuriCore Limited claims damages of £2,167,000 or approximately \$3,600,000, plus interest and its legal costs. The Company believes the Lawsuit is without merit and intends to vigorously defend its position. The Company's counsel believes that the Company has strong defenses to the allegations made in the Lawsuit. There can be no assurance, however, that the Company may not have to pay some amount to resolve PuriCore Limited's claims. The Company and PuriCore have agreed upon an amount for commissions applicable to the first year's sales of £190,000 or approximately \$285,000. This amount was due to be paid to Misonix on October 30, 2010. To date, the Company has not received such amount. Due to the uncertainty surrounding collectability of the commission as a result of the Dispute Notice, the Company has not recognized this amount in the consolidated financial statements.

**10. Business Segments**

The Company operates in two business segments which are organized by product types: laboratory and scientific products and medical devices. Laboratory and scientific products include the Aura™ ductless fume enclosure and forensic equipment primarily used in law enforcement. Medical device products include the AutoSonix ultrasonic cutting and coagulatory system, refurbishing revenues of high-performance ultrasound systems and replacement transducers for the medical diagnostic ultrasound industry, ultrasonic lithotripter, ultrasonic neuroaspirator (used for neurosurgery) and soft tissue aspirator (used primarily for the cosmetic surgery market). The Company evaluates the performance of the segments based upon income from operations less general and administrative expenses and litigation (recovery) settlement expenses, which are maintained at the corporate headquarters (corporate). The Company does not allocate assets by segment as such information is not provided to the chief decision maker. Summarized financial information for each of the segments for the nine and three months ended March 31, 2011 and 2010 are as follows:



**Table of Contents**

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

For the nine months ended March 31, 2011:

	<b>Medical Devices</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 8,607,594	\$ 1,667,237	\$	\$ 10,274,831
Cost of goods sold	3,655,203	1,222,644		4,877,847
Gross profit	4,952,391	444,593		5,396,984
Selling expenses	2,700,381	398,586		3,098,967
Research and development	1,095,733	207,388		1,303,121
General and administrative			3,334,338	3,334,338
Total operating expenses	3,796,114	605,974	3,334,338	7,736,426
Operating income (loss) from continuing operations	\$ 1,156,277	\$ (161,381)	\$ (3,334,338)	\$ (2,339,442)
Net loss from discontinued operations	\$ (105,364)	\$ (172,277)	\$	\$ (277,641)

For the nine months ended March 31, 2010:

	<b>Medical Devices</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 7,132,493	\$ 1,959,829	\$	\$ 9,092,322
Cost of goods sold	3,406,800	1,453,739		4,860,539
Gross profit	3,725,693	506,090		4,231,783
Selling expenses	2,270,471	379,228		2,649,699
Research and development	1,137,682	249,451		1,387,133
General and administrative			3,824,640	3,824,640
Total operating expenses	3,408,153	628,679	3,824,640	7,861,472
Operating income (loss) from continuing operations	\$ 317,540	\$ (122,589)	\$ (3,824,640)	\$ (3,629,689)
Net (loss) income from discontinued operations	\$ (124,139)	\$ 326,859	\$	\$ 202,720



**Table of Contents**

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

For the three months ended March 31, 2011:

	<b>Medical Devices</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 3,152,771	\$ 440,383	\$	\$ 3,593,154
Cost of goods sold	1,396,200	323,837		1,720,037
Gross profit	1,756,571	116,546		1,873,117
Selling expenses	972,174	107,093		1,079,267
Research and development	362,295	52,047		414,342
General and administrative			1,007,051	1,007,051
Total operating expenses	1,334,469	159,140	1,007,051	2,500,660
Operating income (loss) from continuing operations	\$ 422,102	\$ (42,594)	\$ (1,007,051)	\$ (627,543)
Net income (loss) from discontinued operations	\$ 40,921	\$ (172,277)	\$	\$ (131,356)

For the three months ended March 31, 2010:

	<b>Medical Devices</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 2,634,967	\$ 678,164	\$	\$ 3,313,131
Cost of goods sold	1,115,562	480,702		1,596,264
Gross profit	1,519,405	197,462		1,716,867
Selling expenses	544,920	126,293		671,213
Research and development	357,145	83,948		441,093
General and administrative			1,021,476	1,021,476
Total operating expenses	902,065	210,241	1,021,476	2,133,782
Operating income (loss) from continuing operations	\$ 617,340	\$ (12,779)	\$ (1,021,476)	\$ (416,915)
Net loss from discontinued operations	\$ (475,346)	\$ (15,672)	\$	\$ (491,018)



**Table of Contents**

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

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

	<b>three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
United States	\$ 2,610,899	\$ 2,216,915
Australia	32,940	3,025
Europe	528,355	444,367
Asia	109,701	341,144
Canada and Mexico	100,308	13,135
South America	101,615	165,209
South Africa		2,361
Middle East	81,950	150,492
Other	27,386	(23,517)
	<b>\$ 3,593,154</b>	<b>\$ 3,313,131</b>

	<b>nine months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
United States	\$ 7,495,299	\$ 6,988,004
Australia	97,403	37,297
Europe	1,256,595	873,866
Asia	320,548	598,184
Canada and Mexico	260,921	72,997
South America	385,408	226,822
South Africa	141,712	8,801
Middle East	269,808	239,454
Other	47,137	46,897
	<b>\$ 10,274,831</b>	<b>\$ 9,092,322</b>

**12. Fair Value of Financial Instruments**

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

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

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

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

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at March 31, 2011:

**Carrying**

<b>March 31, 2011</b>	<b>Amount</b>	<b>Fair Value</b>
Cash	\$ 7,584,475	\$ 7,584,475
Trade accounts receivable	1,859,026	1,859,026
Trade accounts payable	1,293,455	1,293,455
Note receivable	210,000	210,000
Note payable		
	<b>Carrying</b>	
	<b>Amount</b>	<b>Fair Value</b>
<b>June 30, 2010</b>		
Cash	\$ 9,900,605	\$ 9,900,605
Trade accounts receivable	2,335,653	2,335,653
Trade accounts payable	888,654	888,654
Notes receivable	1,075,105	1,075,105
Note payable	177,679	177,679

**Table of Contents**

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

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.

***Note Payable***

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

**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 March 31, 2011 and for the three months then ended, no fair value adjustments or material fair value measurements were required for non-financial assets or liabilities.

**13. Goodwill and Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisitions of assets from Fibra Sonics, Inc. and are fully integrated into Misonix.

Goodwill and intangible assets with indefinite useful lives are not amortized. We review goodwill and identifiable intangible assets with indefinite lives 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 products. 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, the useful life over which cash flows will occur and determination of our weighted-average cost of capital. 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 completed its annual goodwill impairment tests for fiscal 2010, concluding that there was no impairment. There were no indicators that the recorded goodwill was impaired as of March 31, 2011 which required further testing.

The cost of acquiring or processing patents is capitalized at cost. 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 other assets totaled \$542,000 and \$518,000 at March 31, 2011 and June 30, 2010, respectively. Accumulated amortization totaled \$403,000 and \$356,000 at March 31, 2011 and June 30, 2010, respectively. Amortization expense for the nine month and three periods ending March 31, 2011 was approximately \$48,000 and \$17,000, respectively. Net customer relationships reported in other assets totaled \$720,000 and \$0 at March 31, 2011 and June 30, 2010 respectively. Amortization expense for the nine month and three month periods ending March 31, 2011 was \$80,000 and \$40,000 respectively.

**Table of Contents**

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

The following is a schedule of estimated future amortization expense as of March 31, 2011:

	<b>Patents</b>	<b>Customer Relationships</b>
June 30, 2011	\$ 17,000	\$ 40,000
June 30, 2012	63,000	160,000
June 30, 2013	60,000	160,000
June 30, 2014	57,000	160,000
June 30, 2015	51,000	160,000
Thereafter	294,000	40,000
	<b>\$ 542,000</b>	<b>\$ 720,000</b>

**14. Recent Accounting Pronouncements**

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 a 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 did not have a material impact on the Company's consolidated financial statements.

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

In April 2010, the FASB issued guidance to clarify that an employee share-based payment award that has an exercise price denominated in the currency of the market in which a substantial portion of the entity's equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity should not classify such an award as a liability if it otherwise qualifies as equity. The amended guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of the guidance to have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued guidance that will enhance future disclosure about the credit quality of a creditor's financing receivables and the adequacy of its allowance for credit losses. The amended guidance will be effective beginning with the first quarterly or annual reporting period ending on or after December 15, 2010. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued an accounting standard update for business combinations specifically related to the disclosures of supplementary pro forma information for business combinations. This guidance specifies that pro forma disclosures should be reported as if the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period and the pro forma disclosures must include a description of material, nonrecurring pro forma adjustments. This standard will be effective for business combinations with an acquisition date of January 1, 2011 or later. The adoption of the guidance is not expected to have a material impact on the Company's consolidated financial statements.





**Table of Contents**

In March 2010, we adopted Accounting Standards Update ( ASU ) 2010-06, *Improving Disclosures about Fair Value Measurements*, that requires companies to enhance the usefulness of fair value measurements by requiring both the disaggregation of information in certain existing disclosures, as well as the inclusion of more robust disclosures about valuation techniques and inputs to recurring and nonrecurring fair value measurements. The adoption of this standard will impact how we disclose in the future any material transfers into and out of Level 1 (measurements based on quoted prices in active markets) and Level 2 inputs (measurements based on other observable inputs) of the fair value hierarchy. There were no such transfers in 2010.

In December 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*, to modify goodwill impairment testing for reporting units with a zero or negative carrying amount. Under the amended guidance, an entity must consider whether it is more likely than not that a goodwill impairment exists for reporting units with a zero or negative carrying amount. If it is more likely than not that a goodwill impairment exists, the second step of the goodwill impairment test in ASC 350-20-35 must be performed to measure the amount of goodwill impairment loss, if any. This standard will be effective for goodwill impairment analysis for fiscal years, and interim periods beginning after December 15, 2010, and becomes effective for our interim and annual reporting periods beginning July 1, 2011. The adoption of the guidance is not expected to have a material impact on the Company's consolidated financial statements.

**15. Subsequent Events**

The Company evaluated events occurring subsequent to March 31, 2011 for potential recognition and disclosure in the consolidated financial statements.

**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, 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, 2010, for the fiscal year ended June 30, 2010 (2010 Form 10-K). Item 7 of the 2010 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of March 31, 2011.

**Forward Looking Statements**

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

**Table of Contents**

Nine months ended March 31, 2011 and 2010.

**Net sales:** Net sales of the Company's medical device products and laboratory and scientific products increased \$1,182,509 to \$10,274,831 for the nine months ended March 31, 2011 from \$9,092,322 for the nine months ended March 31, 2010. The change in net sales is due to an increase in sales of medical device products of \$1,475,101 to \$8,607,594 for the nine months ended March 31, 2011 from \$7,132,493 for the nine months ended March 31, 2010. The change in net sales is partially offset by a decrease in laboratory and scientific products sales of \$292,592 to \$1,667,237 for the nine months ended March 31, 2011 from \$1,959,829 for the nine months ended March 31, 2010. The increase in therapeutic medical device products sales was primarily attributable to an increase in sales of the Company's Neuroaspirator of \$1,291,243 and AutoSonix products of \$249,835, partially offset by lower Lysonix sales of \$101,292. The decrease in laboratory and scientific products sales is primarily due to lower forensic market sales due to the overall state and municipal economic environment.

**Gross profit:** Gross profit increased to 52.5% for the nine months ended March 31, 2011 from 46.5% for the nine months ended March 31, 2010. Gross profit for medical device products increased to 57.5% for the nine months ended March 31, 2011 from 52.2% for the nine months ended March 31, 2010. Gross profit for laboratory and scientific products increased to 26.7% for the nine months ended March 31, 2011 from 25.8% for the nine months ended March 31, 2010. Gross profit for medical device products was favorably impacted in the nine months ended March 31, 2011 predominately due to a favorable product mix of higher margin Neuroaspirator products. The increase in gross profit percentage in the March 31, 2011 period for laboratory and scientific products is due to lower overall fixed factory overhead costs due to reduced headcount.

**Selling expenses:** Selling expenses increased \$449,268 to \$3,098,967 for the nine months ended March 31, 2011 from \$2,649,699 for the nine months ended March 31, 2010. Laboratory and scientific products selling expenses increased \$19,358. Selling expenses for medical device products increased \$429,910. The higher medical selling expenses were due to additional personnel, expansion of our representative network and increased internal sales commissions.

**General and administrative expenses:** General and administrative expenses decreased \$490,302 from \$3,824,640 in the nine months ended March 31, 2010 to \$3,334,338 in the nine months ended March 31, 2011 mainly due to lower salary expense, bank fees, rent and insurance.

**Research and development expenses:** Research and development expenses decreased \$84,012 from \$1,387,133 for the nine months ended March 31, 2010 to \$1,303,121 for the nine months ended March 31, 2011. Laboratory and scientific products research and development expenses decreased \$42,063. Research and development expenses for medical device products decreased \$41,949. The reduction in research and development expenses is primarily due to decreased product development expenses and a reduction in headcount.

**Other income (expense):** Other income for the nine months ended March 31, 2011 was \$577,693 as compared to \$1,050,217 for the nine months ended March 31, 2010, a decrease of \$472,524 due to the recovery of the Focus Surgery, Inc. ( Focus ) note in the third quarter of fiscal 2010 in the amount of \$693,044. This decrease was partially offset by the receipt of a federal Therapeutic Discovery credit of \$114,391 recorded during the third quarter of fiscal 2011.

**Income taxes:** The effective tax rate was (2%) for the nine months ended March 31, 2011, as compared to an effective tax rate of 38% for the nine months ended March 31, 2010. The (2%) is predicated on the assumption of an effective tax rate of approximately (2%) based upon updated assumptions for fiscal 2011 plus the impact of permanent differences between accounting and taxable income.

**Table of Contents**

Three months ended March 31, 2011 and 2010.

**Net sales:** Net sales of the Company's medical device products and laboratory and scientific products increased \$280,023 to \$3,593,154 for the three months ended March 31, 2011 from \$3,313,131 for the three months ended March 31, 2010. The change in net sales is due to an increase in sales of medical device products of \$517,804 to \$3,152,771 for the three months ended March 31, 2011 from \$2,634,967 for the three months ended March 31, 2010. The change in net sales is also due to a decrease in laboratory and scientific products sales of \$237,781 to \$440,383 for the three months ended March 31, 2011 from \$678,164 for the three months ended March 31, 2010. The increase in therapeutic medical device products sales was primarily attributable to sales of the Company's Neuroaspirator products.

**Gross profit:** Gross profit increased to 52.1% for the three months ended March 31, 2011 from 51.8% for the three months ended March 31, 2010. Gross profit for medical device products decreased to 55.7% for the three months ended March 31, 2011 from 57.7% for the three months ended March 31, 2010. Gross profit for laboratory and scientific products decreased to 26.5% for the three months ended March 31, 2011 from 29.1% for the three months ended March 31, 2010. Gross profit for medical device products and laboratory and scientific products was negatively impacted in the three months ended March 31, 2011 predominately due to lower sales volume to cover fixed factory costs.

**Selling expenses:** Selling expenses increased \$408,054 to \$1,079,267 for the three months ended March 31, 2011 from \$671,213 for the three months ended March 31, 2010. Laboratory and scientific products selling expenses decreased \$19,200. Selling expenses for medical device products increased \$427,254. The higher medical selling expenses were due to additional personnel, expansion of our representative network and increased internal sales commissions.

**General and administrative expenses:** General and administrative expenses decreased \$14,425 to \$1,007,051 in the three months ended March 31, 2011 from \$1,021,476 in the three months ended March 31, 2010.

**Research and development expenses:** Research and development expenses decreased \$26,751 from \$441,093 for the three months ended March 31, 2010 to \$414,342 for the three months ended March 31, 2011. Laboratory and scientific products research and development expenses decreased \$31,901 due to lower product development costs. Research and development expenses for medical device products increased \$5,150.

**Other income (expense):** Other income for the three months ended March 31, 2011 was \$231,421 as compared to \$832,683 for the three months ended March 31, 2010, a decrease of \$601,262 due to the recovery of the Focus note in the third quarter of fiscal 2010 in the amount of \$693,044. This decrease was partially offset by the receipt of a federal Therapeutic Discovery credit of \$114,391 recorded during the third quarter of fiscal 2011.

**Income taxes:** The effective tax rate was (1%) for the three months ended March 31, 2011, as compared to an effective tax rate of 50% for the three months ended March 31, 2010. The (1%) is predicated on the assumption of an effective tax rate of approximately (1%) based upon updated assumptions for fiscal 2011 plus the impact of permanent differences between accounting and taxable income.

**Table of Contents**

**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 operations for at least the next twelve months. 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 public or private equity and/or debt financings, divestiture of current business lines as well as from other sources. No assurance can be given that additional financing will be available in the future or that if available, such financing will be obtainable on favorable terms when required.

Working capital at March 31, 2011 and June 30, 2010 was \$11,640,000 and \$14,460,000, respectively. For the nine months ended March 31, 2011, cash used in operations totaled \$1,455,000. For the nine months ended March 31, 2011, cash used in investing activities totaled \$1,514,000. For the nine months ended March 31, 2011, cash used in financing activities was \$189,000 predominately due to the pay down of the insurance note payable.

**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.

**New Accounting Pronouncements**

We are required to adopt certain new accounting pronouncements. See note 14 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.

**Table of Contents****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 March 31, 2011 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

*Changes in Internal Control Over Financial Reporting*

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three months ended March 31, 2011 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

The Current Report on Form 8-K filed by the Company with the SEC on January 28, 2011 contains a description of the litigation instituted by PuriCore Limited with respect to the sale by the Company of all of the outstanding shares of stock of Labcaire Systems, Ltd. and is hereby incorporated by reference in this Report.

**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 2010 Form 10-K. There have been no material changes from the risk factors disclosed in the 2010 Form 10-K.

**Item 6. Exhibits.**

Exhibit 31.1-	Rule 13a-14(a)/15d-14(a) Certification
Exhibit 31.2-	Rule 13a-14(a)/15d-14(a) Certification
Exhibit 32.1-	Section 1350 Certification of Chief Executive Officer
Exhibit 32.2-	Section 1350 Certification of Chief Financial Officer

**Table of Contents**

**SIGNATURES**

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

Date: May 10, 2011

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