

MISONIX INC
Form 10-K
September 26, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2008

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, New
York
(Address of principal executive offices)

11735
(Zip Code)

Registrant's telephone number, including area code: (631) 694-9555

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|-------------------------------|---|
| Common Stock, \$.01 par value | Nasdaq Global Market |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

☐ Yes ☒ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒ x

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 ☒ x

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on December 31, 2007 (computed by reference to the closing price of such stock on such date) was approximately \$28,878,000.

There were 7,001,369 shares of Common Stock outstanding at September 24, 2008.

INCORPORATED BY REFERENCE

None

With the exception of historical information contained in this Form-10K, content herein may contain "forward looking statements" that are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Investors are cautioned that forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the statements made. The factors include general economic conditions, delays and risks associated with the performance of contracts, risks associated with international sales and currency fluctuations, uncertainties as a result of research and development, acceptable results from clinical studies, including publication of results and patient/procedure data with varying levels of statistical relevance, risks involved in introducing and marketing new products, potential acquisitions, consumer and industry acceptance, litigation and/or contemplated 510 (k) filings, the ability to achieve and maintain profitability in the Company's business lines, and other factors discussed in this Annual Report on Form 10-K, subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. The Company disclaims any obligation to update its forward-looking statements.

PART I

Item 1. Business.

Overview

MISONIX, INC. ("Misonix" or the "Company") is a New York corporation which, through its predecessors, was first organized in 1959. The Company designs, manufactures, markets and develops minimally invasive ultrasonic medical device products. The Company also develops and markets ultrasonic equipment for use in the scientific and laboratory markets and ductless fume enclosures for filtration of gaseous contaminants in the laboratory and forensic markets.

The Company's operations outside the United States consist of a 100% ownership in Labcaire Systems, Ltd. ("Labcaire"), which is based in North Somerset, England. This business consists of designing, manufacturing, servicing and marketing the ISIS and Guardian endoscope disinfection systems and air-handling systems for the protection of personnel, products and the environment from airborne hazards. The Company also has a 60% ownership in UKHIFU Limited ("UKHIFU"), located in Bristol, England, which is the sales/marketing and service arm of the Company for the ablation of prostate cancer in the United Kingdom ("UK"). The Company has a 100% ownership in Misonix, Ltd. which is located in North Somerset, England. This business is the sales, marketing, distribution and servicing arm for the Company's medical device products in Europe.

The Company's 95% owned subsidiary, Acoustic Marketing Research, Inc. doing business as Sonora Medical Systems ("Sonora"), located in Longmont, Colorado, is an ISO 9001 certified depot level repair facility for MRI and diagnostic ultrasound subsystems, as well as a factory level repair center for diagnostic ultrasound transducers. In addition, Sonora manufactures test equipment to appropriately diagnose failures with ultrasound systems and probes and to establish baseline performance and maintain quality assurance programs for ultrasound systems.

The Company's 100% owned subsidiary, Hearing Innovations, Inc. ("Hearing Innovations"), is a development company with patented HiSonic ultrasonic technology for the treatment of profound deafness and tinnitus.

In fiscal 2008, approximately 46% of the Company's net sales were to foreign markets. Labcaire, which manufactures and sells the Company's fume enclosure line as well as its own range of laboratory and medical environmental control products, represents approximately 64% of the Company's net sales to foreign markets. Labcaire also distributes the Company's ultrasonic equipment for use in scientific and industrial markets, predominately in the UK. Sales by the Company in other major industrial countries are made primarily through distributors. There were no additional risks for products sold by Labcaire as compared to other products marketed and sold by Misonix in the United States. Labcaire experiences minimal currency exposure since the major portion of its revenues are from the UK. Labcaire revenues outside the UK are predominately remitted in British Pounds.

Misonix represented approximately 19% of the net sales to foreign markets in fiscal 2008. These sales had no additional risks as most sales are secured by letters of credit and are remitted to Misonix in U.S. currency.

Sonora represented approximately 11% of the net sales to foreign markets in fiscal 2008. These sales had additional risks as most sales are not secured by letters of credit or do not involve a long term customer where credit risk is minimal. These sales are remitted to Sonora in U.S. currency.

Misonix, Ltd. sales represented approximately 1% of net sales to foreign markets in fiscal 2008 and were invoiced in Euros. These sales had the normal credit risks.

UKHIFU operates in the UK and invoices in British pounds, its sales represented 5% of net sales to foreign markets in fiscal 2008.

Medical Devices

In October 1996, the Company entered into a twenty-year license agreement (the “USS License”) with United States Surgical, a unit of Covidien Ltd. (“USS”). The USS License covers the further development of the Company’s medical technology relating to ultrasonic cutting, which uses high frequency sound waves to coagulate and divide tissue for both open and laproscopic surgery. The USS License gives USS exclusive worldwide marketing and sales rights for this technology and device. Total sales of this device were approximately \$3,629,000, \$4,464,000 and \$4,461,000 for the fiscal years ended June 30, 2008, 2007 and 2006, respectively. Total royalties from sales of this device were approximately \$691,000, \$827,000 and \$810,000 for the fiscal years ended June 30, 2008, 2007 and 2006, respectively.

In June 2002, the Company entered into a ten-year worldwide, royalty-free, distribution agreement with Byron Medical, Inc. (“Byron”) for the sale, marketing and distribution of the Lysonix soft tissue aspirator used for cosmetic surgery. This agreement is a standard agreement for such distribution in that it specifies the product to be distributed, the terms of the agreement and the price to be paid for product covered under the agreement. Total sales of this device were approximately \$1,596,000, \$501,000 and \$1,195,000 for the fiscal years ended June 30, 2008, 2007 and 2006, respectively.

Fibra Sonics, Inc.

On February 8, 2001, the Company acquired certain assets and liabilities of Fibra Sonics, Inc. (“Fibra Sonics”), a Chicago-based, privately held producer and marketer of ultrasonic medical devices for approximately \$1,900,000. This acquisition gave the Company access to three important new medical markets, namely, neurology with its Neuro Aspirator product, urology with the Company’s lithotripsy product and ophthalmology. Subsequent to the acquisition, the Company relocated the assets of Fibra Sonics to the Company’s Farmingdale facility.

UKHIFU Limited

On March 27, 2006, the Company, through its wholly owned subsidiary Misonix, Ltd., acquired a 60% equity position in UKHIFU from Imaging Equipment which owns the remaining 40%. UKHIFU is in the business providing Sonablate 500® equipment to doctors, on a fee for service basis, to use for the ablation of cancerous tissue in the prostate and is the sales/marketing and service arm of the Company in the UK for Sonablate 500 equipment.

In addition to the original investment, the Company made payments of approximately \$50,000 and \$60,000 to Imaging Equipment during the years ended June 30, 2008 and June 30, 2007, respectively. The additional payments were recorded as goodwill.

Focus Surgery, Inc.

On May 3, 1999, the Company entered into an agreement with Focus Surgery, Inc. (“Focus”) to obtain a 20% equity position in Focus for \$3,050,000 and representation on its Board of Directors. Additionally, the Company has options and warrants to purchase an additional 5% of the equity of Focus. Focus is located in Indianapolis, Indiana. The agreement provides for a series of development and manufacturing agreements whereby the Company would upgrade existing Focus products, currently the Sonablate 500, and create new products based on high intensity focused ultrasound (“HIFU”) technology for the non-invasive treatment of tissue for certain medical applications. The Company has the right to utilize HIFU technology for the treatment of both benign and cancerous tumors of the breast, liver and kidney and the right of first refusal to purchase 51% of the equity of Focus. In February 2001, the Company exercised its right to start research and development for the treatment of kidney and liver tumors utilizing HIFU technology. During fiscal 2005, Focus entered into an exclusive agreement with the Company to distribute the Sonablate 500 in the European market. On July 1, 2008, the Company closed the transaction with USHIFU, LLC (“USHIFU”) whereby the Company sold its equity portion in Focus to USHIFU and was paid one half of the amount of its outstanding debt plus interest owed to Misonix by Focus with the remaining amount to be paid in 18 months. On July 1, 2008, the Company received \$679,366.34 which represents one half of the outstanding debt plus interest and \$837,500 for the

Company's 2,500 shares of Series M Preferred Stock of Focus.

Hearing Innovations, Inc.

On July 14, 2004, Hearing Innovations sent all shareholders and creditors a plan for reorganization and disclosure statement. The Company committed to fund Hearing Innovations up to \$150,000 for the reorganization plan. Hearing Innovations filed for relief under Chapter 11 of the U.S. Bankruptcy Code in September 2004. The Plan of Reorganization of Hearing Innovations was confirmed by the court on January 13, 2005. Based upon the final decree, and the approval by the court of the Bankruptcy Plan, the Company owns 100% of the equity in Hearing Innovations.

Sonora Medical Systems

On November 16, 1999, the Company acquired a 51% interest in Sonora for approximately \$1,400,000. Sonora authorized and issued new common stock for the 51% interest. Sonora utilized the proceeds of such sale to increase inventory and expand marketing, sales, and research and development efforts. An additional 4.7% was acquired from the principals of Sonora on February 25, 2000, for \$208,000, bringing the acquired interest to 55.7%. The principals of Sonora sold an additional 34.3% to Misonix on June 1, 2000 for approximately \$1,407,000, bringing the acquired interest to 90%. The acquisition of Sonora was accounted for under the purchase method of accounting. Accordingly, results of operations for Sonora are included in the consolidated statement of income from the date of acquisition and acquired assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess of the cost of the acquisition (\$2,957,000 plus acquisition costs of \$101,000, which includes a broker fee of \$72,000) over the fair value of net assets acquired was \$1,622,845 and is being treated as goodwill. During fiscal 2007, William H. Phillips, a principal of Sonora, exercised his right to require Misonix to purchase his 5% equity portion in Sonora based upon a formula of two times sales. At June 30, 2007, the Company acquired 1.25% for approximately \$296,000 of which \$242,000 was recorded as goodwill, a reduction in minority interest of \$38,000 and \$16,000 was included in interest expense. During the year ended June 30, 2008, the Company acquired the remaining 3.75% for approximately \$918,000 of which \$727,000 was recorded as goodwill, a reduction of minority interest of \$112,000 and \$79,000 was included in interest expense bringing the total acquired interest to 95%.

On July 27, 2000, Sonora acquired 100% of the assets of CraMar Technologies, Inc. ("CraMar"), an ultrasound equipment servicer for approximately \$311,000. The assets of the Colorado-based, privately-held operations of CraMar were relocated to Sonora's facility in Longmont, Colorado. The acquisition was accounted for under the purchase method of accounting. Accordingly, acquired assets have been recorded at their estimated fair values at the date of acquisition. The excess of the cost of the acquisition (\$272,908 plus acquisition costs of \$37,898, which includes a broker fee of \$25,000) over the fair value of net assets acquired was \$257,899 and is being treated as goodwill.

On October 12, 2000, Sonora acquired the assets of Sonic Technologies Laboratory Services ("Sonic Technologies"), an ultrasound acoustic measurement and testing laboratory, for approximately \$320,000. The assets of the Hatboro, Pennsylvania-based operations of privately-held Sonic Technologies were relocated to Sonora's facility in Longmont, Colorado. The acquisition was accounted for under the purchase method of accounting. Accordingly, acquired assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess of the cost of the acquisition (\$270,000 plus acquisition costs of \$51,219, which includes a broker fee of \$25,000) over the fair value of net assets acquired was \$301,219 and is being treated as goodwill.

Laboratory and Scientific Products

The Company's other revenue producing activities consist of the manufacture and sale of Sonicator ultrasonic liquid processors and cell disruptors, Aura™ ductless fume hood products and ISIS, Guardian and Jet AER autoscope reprocessing, disinfecting and rinsing equipment.

Since 1959, the Sonicator line of products has been at the leading edge of ultrasound technology for the laboratory. Misonix has developed the application of sonication as it is currently used in research laboratories to disrupt cells and bacteria, accelerate chemical reactions in the extraction of proteins from cells and in genomic and proteomic research. Over the years our engineering staff has greatly improved the design and performance of the instrument to include a variety of ultrasonic generators, horns and probe accessories to handle virtually any laboratory application and the term Sonicator has become synonymous with ultrasonic liquid processing. The Company's products are proprietary in that they primarily utilize ultrasound as a technology base to solve laboratory, scientific and medical issues. The Company has technical expertise in ultrasound and utilizes ultrasound in many applications, which management believes makes the Company unique. The Company's ultrasound technology is the core surrounding its business model.

The Aura ductless fume hood products offer 40 years of experience in providing safe work environments to medical, pharmaceutical, biotech, semiconductor, law enforcement, federal and local government laboratories. We manufacture a complete line of ductless fume enclosures to control and eliminate hazardous vapors, noxious odors and particulates in the laboratory. All fume enclosure products utilize either activated carbon or HEPA filters to capture contaminants and are a cost effective alternative to standard laboratory fume hoods that require expensive ductwork to vent contaminants to the outside. Misonix also offers laminar airflow stations and PCR enclosures. Misonix Ductless Fume Hoods meet or exceed applicable OSHA, ANSI, NFPA, SEFA and ASHRAE standards for ductless fume hoods. School Demonstration Ductless Fume Hoods have proven to be a valuable addition to hundreds of high school science laboratories. Multiple application filters allow for the use of a variety of chemicals and a clear back panel enables students to view demonstrations from all sides.

The technology used in the Aura ductless fume enclosures has also been adapted for specific uses in crime laboratories. The Forensic Evidence Cabinet protects wet evidence from contamination while it is drying and simultaneously protects law enforcement personnel from evidence that can be noxious and hazardous. The Cyanoacrylate (liquid glue) Fuming Chamber is used by fingerprinting experts to develop fingerprints on non-porous surfaces while providing protection from hazardous cyanoacrylate fumes.

In June 1992, the Company initially acquired an 81.4% interest in Labcaire for \$545,169. The total acquisition cost exceeded the fair value of the net assets acquired by \$241,299, which is being treated as goodwill. The balance of the capital stock of Labcaire was owned by current and former employees of Labcaire who, under a purchase agreement (the "Labcaire Agreement"), sold one-seventh of their total holdings of Labcaire shares to the Company in each of seven consecutive years, commencing with the fiscal year ended June 30, 1996. As of June 30, 2003 the Company owned 100% of Labcaire. Under the Labcaire Agreement, the Company purchased such shares at a price equal to one-seventh of each executive's prorata share of 8.5 times Labcaire's earnings before interest, taxes, and management charges for the preceding fiscal year, which amount is being treated as goodwill. Total goodwill associated with Labcaire is \$1,214,808 of which \$1,063,294 remains at June 30, 2008.

Labcaire has developed, manufactures and sells an automatic endoscope disinfection system (“Autoscope”), which is used predominantly in hospitals. The Autoscope disinfects and rinses several endoscopes while abating the noxious disinfectant fumes produced by the cleaning process. In fiscal 2007, Labcaire introduced the ISIS Autoscope version to incorporate a number of enhancements to comply with the UK HTM 2030 guidelines. HTM 2030 guidelines, among other things, describe the handling of endoscopes to minimize the transfer of bio matter from one patient to the next. Labcaire's business also consists of designing, manufacturing, servicing and marketing air handling systems for the protection of personnel, products and the environment from airborne hazards. These systems are similar to the Aura fume enclosures in that they extract noxious fumes through a series of filters to introduce clean air back into the environment, but have expanded their applications. There are no additional risks for products sold by Labcaire as compared to other products marketed and sold by the Company in the United States. Labcaire experiences minimal currency exposures since a major portion of its revenues are from the UK. Revenues outside the UK are remitted in British Pounds. Labcaire is also the UK distributor of the Company's ultrasonic laboratory and scientific products. Labcaire manufactures class 100 biohazard safety enclosures, used in laboratories to provide sterile environments and to protect lab technicians from airborne contaminants, and class 100 laminar flow enclosures. Labcaire also manufactures the Company's ductless fume enclosures for the European market and sells the enclosures under its trade name.

Market and Customers

Medical Devices

The Company relies on its licensee, USS, a significant customer, for marketing its ultrasonic Auto Sonix surgical device. The Company relies on distributors such as Byron, a wholly owned subsidiary of Mentor Corporation (“Mentor”), Aesculap, Inc. and independent distributors for the marketing of its other medical products. The Company sells its SonicOne Wound Debridement System through independent representatives throughout the United States and through distributors outside the United States.

Sonora relies on direct salespersons and distributors for the marketing of its ultrasonic medical devices. Focus is utilizing the Company, in an exclusive agreement, to distribute the Sonablate 500 in the European market and Russia, which allows the Company to sell directly to end users such as doctors, hospitals and distributors. The Company sells the Sona Star Ultrasonic Surgical Aspiration System directly to end users and distributors internationally.

In June 2002, the Company entered into a ten-year worldwide, royalty-free, distribution agreement with Mentor for the sale, marketing and distribution of the Lysonix 2000/3000 soft tissue aspirator used for cosmetic surgery. In June 2007, the Company terminated the supply and distribution agreement due to Mentor's breach of the agreement. In September 2007, the Company completed a new agreement with Mentor for domestic sales of its ultrasound assisted liposuction product, the Lysonix 3000. Mentor agreed to minimum purchase order provisions for the Lysonix 3000 for a one year term commencing September 30, 2007, and successive annual renewals upon mutual agreement by the companies.

Laboratory and Scientific Products

The Company relies on direct salespersons, distributors, manufacturing representatives and catalog listings for the marketing of its laboratory and scientific products. The Company currently sells its products through five manufacturers' representative firms, twenty distributors in the United States and fourteen internationally. The Company currently employs one direct sales person who operates outside the Company's offices and conducts direct marketing on a regional basis.

The market for the Company's ductless fume enclosures includes laboratory or scientific environments in which workers may be exposed to noxious fumes or vapors. The products are suited to laboratories in which personnel

perform functions which release noxious fumes or vapors (including hospital and medical laboratories), industrial processing (particularly involving the use of solvents) and soldering, and other general chemical processes. The products are particularly suited to users in the pharmaceutical, semiconductor, biotechnology, and forensic industries.

The largest market for the Company's Sonicator includes research and clinical laboratories worldwide. In addition, the Company has expanded its sales of the ultrasonic processor into industrial markets such as paint, pigment, ceramic and pharmaceutical manufacturers.

In fiscal 2008, approximately 46% of the Company's net sales were to foreign markets. Labcaire acts as the European distributor of the Company's laboratory and scientific products and manufactures and sells the Company's fume enclosure line as well as its own range of laboratory and hospital environmental control products, such as the ISIS Autoscope cleaning device. Sales by the Company in other major industrial countries are made through distributors.

Manufacturing and Supply

Medical Devices

The Company manufactures and assembles its medical device products and Focus products at its production facility located in Farmingdale, New York. The Company's products include components manufactured by other companies in the United States. The Company is not dependent upon any single source of supply and has no long-term supply agreements. The Company believes that it will not encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs.

Sonora manufactures and refurbishes its products at its facility in Longmont, Colorado. Sonora is not dependent upon any single source of supply and has no long-term supply agreements. The Company does not believe that Sonora will encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs.

Laboratory and Scientific Products

The Company manufactures and assembles the majority of its laboratory and scientific products at its production facility located in Farmingdale, New York. The Company's products include components manufactured by other companies in the United States. The Company believes that it will not encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs. The Company is not dependent upon any single source of supply and has no long-term supply agreements.

Labcaire manufactures and assembles its products at its facility located in North Somerset, England. The Company does not believe that Labcaire will encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs. Labcaire is not dependent upon any single source of supply and has no long-term supply agreements.

Competition

Medical Devices

Competition in the medical device products and the medical repair and refurbishment industry is rigorous with many companies having significant capital resources, large research laboratories and extensive distribution systems in excess of the Company's. Some of the Company's major competitors are Johnson & Johnson, Inc., Valley Lab, a division of Tyco Healthcare, Integra Life Sciences, Inc., EDAP, TMS S.A., Ambassador Medical, a subsidiary of GE Medical, Philips and Siemens.

Laboratory and Scientific Products

Competitors in the ultrasonic industry for laboratory and scientific products range from large corporations with greater production and marketing capabilities to smaller firms specializing in single products. The Company believes that its significant competitors in the manufacturing and distribution of industrial ultrasonic devices are Branson Ultrasonics, a division of Emerson Electric Co., and Sonics & Materials, Inc. It is possible that other companies in the industry are currently developing products with the same capabilities as those of the Company. The Company believes that the features of its Sonicator and the Company's customer assistance in connection with particular applications give the

Sonicator a competitive advantage over comparable products.

The Company believes that specific advantages of its fume enclosures include efficiency and other product features, such as durability and ease of operation. Ductless fume enclosure advantages are the quality of the product and versatility of applications. The principal competitors for the Company's ductless fume enclosure are Captair, Inc., Air Science Technologies, Air Cleaning Systems, Inc. and Lancer UK Ltd.

Regulatory Requirements

The Company's medical device products are subject to the regulatory requirements of the U.S. Food and Drug Administration ("FDA"). A medical device as defined by the FDA is an instrument, apparatus, implement, machine, contrivance, implant, in vitro reagent, or other similar or related article, including a component, part, or accessory which is recognized in the official National Formulary or the United States Pharmacopoeia, or any supplement to such listings, intended for use in the diagnosis of disease or other conditions, or in the cure, mitigation, treatment, or prevention of disease, in man or animals, or intended to affect the structure or any function of the body of man or animals, and which does not achieve any of its primary intended purposes through chemical action within or on the body of man or animals and which is not dependent upon being metabolized for the achievement of any of its primary intended purposes (a "medical device"). The Company's products that are subject to FDA regulations for product labeling and promotion comply with all applicable regulations. The Company is listed with the FDA as a Medical Device manufacturer and has the appropriate FDA Establishment Numbers in place. The Company has a post-market monitoring system in place such as Complaint Handling and Medical Device Reporting procedures. All current devices manufactured and sold by the Company have all the necessary regulatory approvals. The Company is not aware of any situations which would be materially adverse at this time and neither has the FDA sought legal remedies available, nor have there been any violations of its regulations alleged, against the Company at present.

Patents, Trademarks, Trade Secrets and Licenses

Pursuant to a royalty free license agreement with an unaffiliated third party, the Company has the right to use the trademark "Sonicator" in the United States. The Company also owns trademark registrations for Mystaire in both England and Germany.

The following is a list of the U.S. patents which have been issued to the Company:

| Number | Description | Issue Date | Expiration Date |
|------------|--|------------|-----------------|
| 4,920,954 | Cavitation Device - relating to the Alliger System for applying ultrasonic arteries using a generator, transducer and titanium wire. | 05/01/1990 | 08/05/2008 |
| 5,026,167 | Fluid Processing - relating to the Company's environmental control product line for introducing ozone and liquid into the cavitation zone for an ultrasonic probe. | 06/25/1991 | 10/19/2009 |
| 5,032,027 | Fluid processing - relating to the Company's environmental control product line for the intimate mixing of ozone and contaminated water for the purpose of purification. | 07/16/1991 | 10/19/2009 |
| 5,248,296 | Wire with sheath - relating to the Company's Alliger System for reducing transverse motion in its catheters. | 09/23/1993 | 12/24/2010 |
| 5,306,261 | Guidewire guides - relating to the Company's Alliger System for a catheter with collapsible wire guide. | 04/26/1994 | 01/22/2013 |
| 5,443,456 | Guidewire guides - relating to the Company's Alliger System for a catheter with collapsible wire guide. | 08/22/1995 | 02/10/2014 |
| 5,371,429* | Flow-thru transducer - relating to the Company's liposuction system and its ultrasonic laboratory and scientific products for an electromechanical transducer device. | 12/06/1994 | 09/28/2013 |
| 5,397,293 | Catheter sheath - relating to the Company's Alliger System for an ultrasonic device with sheath and transverse motion damping. | 03/14/1995 | 11/25/2012 |
| 5,419,761* | Liposuction - relating to the Company's liposuction apparatus and associated method. | 05/30/1995 | 08/03/2013 |
| D409 746 | Cannula for ultrasonic probe. | 05/11/1999 | 05/11/2013 |
| D408 529 | Cannula for ultrasonic probe. | 04/20/1989 | 04/20/2013 |
| 722 3267 | Ultrasonic probe with detachable slidable cauterization forceps. | 02/06/2004 | 02/06/2024 |
| D478165 | Cannula for ultrasonic probe. | 08/05/2003 | 08/05/2017 |

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| Number | Description | Issue Date | Expiration Date |
|------------|--|------------|-----------------|
| 5,465,468 | Flow-thru transducer - relating to the method of making an electromechanical transducer device to be used in conjunction with the Company's soft tissue aspiration system and ultrasonic laboratory and scientific products. | 11/14/1995 | 12/06/2014 |
| 5,516,043 | Atomizer horn - relating to an ultrasonic atomizing device, which is used in the Company's laboratory and scientific products. | 05/14/1996 | 06/30/2014 |
| 5,527,273* | Ultrasonic probes - relating to an ultrasonic lipectomy probe to be used with the Company's soft tissue aspiration technology. | 06/18/1996 | 10/6/2014 |
| 5,769,211 | Autoclavable switch - relating to a medical handpiece with autoclavable rotary switch to be used in medical procedures. | 06/23/1998 | 01/21/2017 |
| 5,072,426 | Shock wave hydrophone with self-monitoring feature. | 12/10/1991 | 02/08/2011 |
| 5,151,084 | Ultrasonic needle with sleeve that includes a baffle. | 09/29/1992 | 07/29/2011 |
| 5,562,609 | Ultrasonic surgical probe. | 10/08/1996 | 10/07/2014 |
| 5,562,610 | Needle for ultrasonic surgical probe. | 10/08/1996 | 10/07/2014 |
| 6,033,375 | Ultrasonic probe with isolated and Teflon coated outer cannula. | 03/07/2000 | 12/23/2017 |
| 6,270,471 | Ultrasonic probe with isolated outer cannula. | 08/07/2001 | 12/23/2017 |
| 6,443,969 | Ultrasonic blade with cooling. | 09/03/2002 | 08/15/2020 |
| 6,379,371 | Ultrasonic blade with cooling. | 04/30/2002 | 11/15/2019 |
| 6,375,648 | Infiltration cannula with Teflon coated outer surface. | 04/23/2002 | 10/02/2018 |
| 6,326,039 | Skinless sausage or frankfurter manufacturing method and apparatus utilizing reusable deformable support. | 12/04/2001 | 10/31/2020 |
| D565,444 | Testing device for acoustic probes and systems | 04/01/08 | 1/29/2021 |
| 6,920,776 | Apparatus and methods for interfacing acoustic testing apparatus with acoustic probes and systems | 07/26/05 | 11/05/2024 |
| 6,928,856 | Apparatus and methods for interfacing acoustic testing apparatus with acoustic probes and systems | 08/16/05 | 11/05/2024 |
| 7,007,539 | Apparatus and methods for interfacing acoustic testing apparatus with acoustic probes and systems | 03/07/06 | 04/28/2023 |
| 7,028,529 | Apparatus and methods for testing acoustic probes and systems | 04/18/06 | 04/28/2023 |

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|-----------|---|----------|------------|
| 7,155,957 | Apparatus and methods for testing acoustic probes and systems | 01/02/07 | 12/27/2025 |
| 7,278,289 | Apparatus and methods for testing acoustic probes and systems | 10/09/07 | 04/28/2023 |

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| Number | Description | Issue Date | Expiration Date |
|-------------|---|------------|-----------------|
| 6,322,832 | Manufacturing method and apparatus utilizing reusable deformable support. | 11/27/2001 | 10/31/2020 |
| 6,146,674 | Method and device for manufacturing hot dogs using high power ultrasound. | 11/14/2000 | 05/27/2019 |
| 6,063,050 | Ultrasonic dissection and coagulation system. | 05/16/2000 | 10/16/2017 |
| 6,036,667 | Ultrasonic dissection and coagulation system. | 03/14/2000 | 08/14/2017 |
| 6,582,440 | Non-clogging catheter for lithotripsy. | 06/24/2003 | 12/26/2016 |
| 6,578,659 | Ultrasonic horn assembly. | 06/17/2003 | 12/01/2020 |
| 6,454,730 | Thermal film ultrasonic dose indicator. | 09/24/2002 | 04/02/2019 |
| 6,613,056 | Ultrasonic probe with low-friction bushings. | 09/02/2003 | 02/17/2019 |
| 6,648,839 | Ultrasonic medical treatment device for RF cauterization and related method. | 11/18/2003 | 05/08/2022 |
| 6,660,054 | Fingerprint processing chamber with airborne contaminant containment and adsorption. | 12/09/2003 | 09/10/2021 |
| 6,736,814 | Ultrasonic medical treatment device for bipolar RF cauterization and related method. | 05/18/2004 | 02/28/2022 |
| 6,799,729 | Ultrasonic cleaning probe. | 10/05/2004 | 10/05/2021 |
| 6,869,439 | Ultrasonic dissector. | 03/22/2005 | 03/22/2022 |
| 6,902,536 | RF cauterization and ultrasonic ablation. | 06/07/2005 | 06/07/2022 |
| 7,004,282 | Ultrasonic horn | 02/28/2006 | 10/28/2022 |
| 5,151,083 | Apparatus for Eliminating Air Bubbles in an Ultrasonic Surgical Device | 09/29/1992 | 07/29/2011 |
| 6,377,693** | Tinnitus masking using ultrasonic signals | 06/23/1994 | 06/23/2014 |
| 6,173,062** | Frequency transpositional hearing aid with digital and single sideband modulation | 03/16/1994 | 03/16/2014 |
| 6,169,813** | Frequency transpositional hearing aid with single sideband modulation | 03/16/1994 | 03/16/2014 |
| 5,663,727** | Frequency response analyzer and shaping apparatus and digital hearing enhancement apparatus and method utilizing the same | 06/23/1995 | 06/23/2015 |

* Patents valid also in Japan, Europe and Canada.

** Owned by Hearing Innovations, Inc.

The following is a list of the U.S. trademarks which have been issued to the Company:

| Registration Number | Registration Date | Mark | Goods | Renewal Date |
|---------------------|-------------------|-----------|--|--------------|
| 2,611,532 | 08/27/2002 | Mystaire | Scrubbers Employing Fine Sprays Passing Through Mesh for Eliminating Fumes and Odors from Gases. | 08/27/2012 |
| 1,219,008 | 12/07/1982 | Sonimist | Ultrasonic and Sonic Spray Nozzle for Vaporizing Fluid for Commercial, Industrial and Laboratory Use. | 03/22/2013 |
| 1,200,359 | 04/03/2002 | Water Web | Lamination of Screens to Provide Mesh to be Inserted in Fluid Stream for Mixing or Filtering of Fluids. | 04/03/2013 |
| 2,051,093 | 03/27/2003 | Misonix | Anti-Pollution Wet Scrubbers; Ultrasonic Cleaners; Spray Nozzles for Ultrasonic Cleaners. | 03/27/2009 |
| 2,051,092 | 02/13/2003 | Misonix | Ultrasonic Liquid Processors; Ultrasonic Biological Cell Disrupters; Ultrasonic Cleaners. | 02/13/2009 |
| 2,320,805 | 02/22/2000 | Aura | Ductless Fume Enclosures. | 02/22/2010 |
| 2,812,718 | 02/10/2004 | Misonix | Ultrasonic medical devices, namely, ultrasonic surgical aspirators, ultrasonic lithotripters, ultrasonic phacoemulsifiers. | 02/10/2014 |
| 1,195,570 | 07/14/2002 | Astrason | Portable Ultrasonic Cleaners featuring Microscopic Shock Waves. | 07/14/2012 |
| 3,373,435 | 01/22/2008 | SonicOne | Ultrasonic Surgical Systems | 01/22/2018 |

Backlog

As of June 30, 2008, the Company's backlog (firm orders that have not yet been shipped) was \$10,908,000, as compared to approximately \$7,200,000 as of June 30, 2007. The Company's backlog relating to laboratory and scientific products, including Labcaire, was approximately \$6,000,000 at June 30, 2008, as compared to \$3,600,000 as of June 30, 2007. The Company's backlog relating to medical devices, including Sonora, was approximately \$4,900,000 at June 30, 2008, as compared to approximately \$3,600,000 at June 30, 2007.

Employees

As of September 12, 2008, the Company, including Labcaire and Sonora, employed a total of 235 full-time employees, including 50 in management and supervisory positions, and 19 part-time employees. The Company considers its relationship with its employees to be good.

Business Segments

The following table provides a breakdown of net sales by business segment for the periods indicated:

| | Fiscal year ended June 30, | | |
|------------------------------------|----------------------------|---------------|---------------|
| | 2008 | 2007 | 2006 |
| Medical devices | \$ 24,273,450 | \$ 23,540,628 | \$ 20,928,052 |
| Laboratory and scientific products | 21,366,256 | 18,891,277 | 18,559,241 |
| Net sales | \$ 45,639,706 | \$ 42,431,905 | \$ 39,487,293 |

The following table provides a breakdown of foreign sales by geographic area during the periods indicated:

| | Fiscal year ended June 30, | | |
|-------------------|----------------------------|---------------|---------------|
| | 2008 | 2007 | 2006 |
| United Kingdom | \$ 14,107,027 | \$ 11,536,440 | \$ 9,392,592 |
| Europe | 2,842,250 | 3,713,012 | 2,210,668 |
| Asia | 1,856,016 | 1,673,480 | 1,268,799 |
| Canada and Mexico | 720,783 | 452,641 | 640,009 |
| Middle East | 342,524 | 115,020 | 307,810 |
| Other | 1,170,158 | 608,277 | 618,202 |
| | \$ 21,038,758 | \$ 18,098,870 | \$ 14,438,080 |

Website Access Disclosure

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K are available free of charge on the Company's website at www.MISONIX.COM as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC").

Also, copies of the Company's annual report will be made available, free of charge, upon written request.

Item 1A. Risk Factors.

In addition to the other information contained in this Annual Report on Form 10-K and the exhibits hereto, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements set forth immediately prior to the beginning of Item 1 of this Annual Report on Form 10-K. Additional risks not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition or results of operations.

Risks Related to Our Business

We are subject to extensive medical device regulation which may impede or hinder the approval process for our products and, in some cases, may not ultimately result in approval or may result in the recall or seizure of previously approved products.

Our products, development activities and manufacturing processes are subject to extensive and rigorous regulation by the FDA pursuant to the Federal Food, Drug, and Cosmetic Act (the "FDC Act"), by comparable agencies in foreign countries, and by other regulatory agencies and governing bodies. Under the FDC Act, medical devices must receive FDA clearance or approval before they can be commercially marketed in the U.S. In addition, most major markets for medical devices outside the U.S. require clearance, approval or compliance with certain standards before a product can be commercially marketed. The process of obtaining marketing approval or clearance from the FDA for new products, or with respect to enhancements or modifications to existing products, could:

- §take a significant period of time;
- §require the expenditure of substantial resources;
- §involve rigorous pre-clinical and clinical testing;
- §require changes to the products; and
- §result in limitations on the indicated uses of the products.

Even after products have received marketing approval or clearance, product approvals and clearances by the FDA can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial approval. There can be no assurance that we will receive the required clearances from the FDA for new products or modifications to existing products on a timely basis or that any FDA approval will not be subsequently withdrawn. Later discovery of previously unknown problems with a product or manufacturer could result in fines, delays or suspensions of regulatory clearances, seizures or recalls of products, operating restrictions and/or criminal prosecution. The failure to receive product approval clearance on a timely basis, suspensions of regulatory clearances, seizures or recalls of products or the withdrawal of product approval by the FDA could have a material adverse effect on our business, financial condition or results of operations.

We may not meet regulatory quality standards applicable to our manufacturing and quality processes, which could have an adverse effect on our business, financial condition or results of operations.

As a device manufacturer, we are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. In addition, the Federal Medical Device Reporting regulations require us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections by the FDA. In the European Community, we are required to maintain certain ISO certifications in order to sell our products and must undergo periodic inspections by notified bodies to obtain and maintain these certifications.

Future intellectual property litigation could be costly and disruptive to us.

We operate in an industry that is susceptible to significant intellectual property litigation and, in recent years, it has been common for companies in the medical device field to aggressively challenge the patent rights of other companies in order to prevent the marketing of new devices. Intellectual property litigation is expensive, complex and lengthy and its outcome is difficult to predict. Future patent litigation may result in significant royalty or other payments or injunctions that can prevent the sale of products and may significantly divert the attention of our technical and management personnel. In the event that our right to market any of our products is successfully challenged, and if we fail to obtain a required license or are unable to design around a patent, our business, financial condition or results of operations could be materially adversely affected.

We may not be able effectively to protect our intellectual property rights which could have an adverse effect on our business, financial condition or results of operations.

Patents and other proprietary rights are and will be essential to our business, and our ability to compete effectively with other companies will be dependent upon the proprietary nature of our technologies. We rely upon trade secrets, know-how, continuing technological innovations, strategic alliances and licensing opportunities to develop, maintain and strengthen our competitive position. We pursue a policy of generally obtaining patent protection in both the U.S. and abroad for patentable subject matter in our proprietary devices and also attempt to review third-party patents and patent applications to the extent publicly available to develop an effective patent strategy, avoid infringement of third-party patents, identify licensing opportunities and monitor the patent claims of others. We currently own

numerous U.S. and foreign patents. We also are party to various license agreements pursuant to which patent rights have been obtained or granted in consideration for cash or royalty payments. No assurance can be made that any pending or future patent applications will result in issued patents, that any current or future patents issued to, or licensed by, us will not be challenged or circumvented by our competitors, or that our patents will not be found invalid.

In addition, we may have to take legal action in the future to protect our patents, trade secrets or know-how or to assert them against claimed infringement by others. Any legal action of that type could be costly and time consuming to us and no assurances can be made that any lawsuit will be successful.

The invalidation of key patents or proprietary rights that we own, or an unsuccessful outcome in lawsuits to protect our intellectual property, could have a material adverse effect on our business, financial condition or results of operations.

Future product liability claims and other litigation, including private securities litigation and shareholder derivative suits, may adversely affect our business, reputation and ability to attract and retain customers.

The design, manufacture and marketing of medical device products of the types that we produce entail an inherent risk of product liability claims. A number of factors could result in an unsafe condition or injury to, or death of, a patient with respect to these or other products that we manufacture or sell, including component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information. These factors could result in product liability claims, a recall of one or more of our products or a safety alert relating to one or more of our products. Product liability claims may be brought by individuals or by groups seeking to represent a class.

We may not be successful in our strategic initiatives to become primarily a medical device company.

Our strategic initiatives intend to further expand our ability to offer customers effective, quality medical devices that satisfy their needs, as well as focus the Company on our medical device platform. If we are unsuccessful in our strategic initiatives, we may be unable to continue to grow our business significantly or may record asset impairment charges in the future.

Our future growth is dependent upon the development of new products, which requires significant research and development, clinical trials and regulatory approvals, all of which are very expensive and time-consuming and may not result in a commercially viable product.

In order to develop new products and improve current product offerings, we focus our research and development programs largely on the development of next-generation and novel technology offerings across multiple programs and opportunities. We are performing clinicals for kidney cancer treatment in Europe.

Further, we anticipate continuing our increased focus and spending on areas such as HIFU technologies for the kidney, liver and breast. However, given their early stage of development, there can be no assurance that these and other technologies will achieve technological feasibility, obtain regulatory approval or gain market acceptance. A delay in the development or approval of these technologies or our decision to reduce funding of these projects may adversely impact the contribution of these technologies to our future growth.

As a part of the regulatory process of obtaining marketing clearance from the FDA for new products, we conduct and participate in numerous clinical trials with a variety of study designs, patient populations and trial endpoints. Unfavorable or inconsistent clinical data from existing or future clinical trials conducted by us, by our competitors or by third parties, or the market's perception of this clinical data, may adversely impact our ability to obtain product approvals from the FDA, our position in, and share of, the markets in which we participate and our business, financial condition, results of operations or future prospects.

New products may not be accepted in the market.

We are now, and will continue to be, developing new products and introducing them into the market. There can be no assurance that any new product will be accepted by the market. New products are sometimes introduced into the market in a prototype format and may need later revisions or design changes before they operate in a manner to be accepted in the market. As a result of the introduction of new products, there is some risk that revenue expectations may not be met and in some cases the product may not achieve market acceptance.

We face intense competition and may not be able to keep pace with the rapid technological changes in the medical devices industry, which could have an adverse effect on our business, financial condition or results of operations.

The medical device product market is highly competitive. We encounter significant competition across our product lines and in each market in which our products are sold from various medical device companies, some of which have greater financial and marketing resources than we do.

Additionally, the medical device product market is characterized by extensive research and development and rapid technological change. Developments by other companies of new or improved products, processes or technologies, in particular in the cancer treatment market, may make our products or proposed products obsolete or less competitive and may negatively impact our revenues. We are required to devote continued efforts and financial resources to develop or acquire scientifically advanced technologies and products, apply our technologies cost-effectively across product lines and markets, attract and retain skilled development personnel, obtain patent and other protection for our technologies and products, obtain required regulatory and reimbursement approvals and successfully manufacture and market our products. Failure to develop new products or enhance existing products could have a material adverse effect on our business, financial condition or results of operations.

Because we derive a significant amount of our revenues from international operations and a significant percentage of our growth is expected to come from international operations, changes in international economic or regulatory conditions could have a material impact on our business, financial condition or results of operations.

Sales outside the U.S. accounted for approximately 46% of our net sales in fiscal 2008. Additionally, a significant percentage of our future growth is expected to come from international operations. As a result, profitability from our international operations may be limited by risks and uncertainties related to economic conditions in these regions, foreign currency fluctuations, regulatory and reimbursement approvals, competitive offerings, infrastructure development, rights to intellectual property and our ability to implement our overall business strategy. Further, international markets are also being affected by economic pressure to contain reimbursement levels and healthcare costs. The trend in countries around the world, including Japan, toward more stringent regulatory requirements for product clearance, changing reimbursement models and more rigorous inspection and enforcement activities has generally caused or may cause medical device manufacturers to experience more uncertainty, delay, risk and expense.

Consolidation in the healthcare industry could lead to demands for price concessions or the exclusion of some suppliers from certain of our significant market segments, which could have an adverse effect on our business, financial condition or results of operations.

The cost of healthcare has risen significantly over the past decade and numerous initiatives and reforms initiated by legislators, regulators and third-party payers to curb these costs have resulted in a consolidation trend in the healthcare industry, including hospitals. This in turn has resulted in greater pricing pressures and the exclusion of certain suppliers from important market segments as group purchasing organizations, independent delivery networks and large single accounts continue to consolidate purchasing decisions for some of our hospital customers. We expect that market demand, government regulation, third-party reimbursement policies and societal pressures will continue to change the worldwide healthcare industry, resulting in further business consolidations and alliances among our customers and competitors, which may reduce competition, exert further downward pressure on the prices of our products and may adversely impact our business, financial condition or results of operations.

We may experience disruption in supply due to our dependence on our suppliers to continue to ship product requirements and our inability to obtain suppliers of certain components for our products.

Our suppliers may encounter problems during manufacturing due to a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, equipment malfunctions, labor shortages or environmental factors. In addition, we purchase both raw materials used in our products and finished goods from various suppliers and can rely on a single source supplier for certain components of our products where there are no alternatives available. Although we anticipate that we have adequate sources of supply and/or inventory of these components to handle our production needs for the foreseeable future, if we are unable to secure on a timely basis sufficient quantities of the materials we depend on to manufacture our products, if we encounter delays or contractual or other difficulties in our relationships with these suppliers, or if we cannot find suppliers at an acceptable cost, then the manufacture of our products may be disrupted, which could increase our costs and have a material adverse effect on our business.

If we fail to manage any expansion or acquisition, our business could be impaired.

We may in the future acquire one or more technologies, products or companies that complement our business. We may not be able to effectively integrate these into our business and any such acquisition could bring additional risks, exposures and challenges to our company. In addition, acquisitions may dilute our earnings per share, disrupt our ongoing business, distract our management and employees, increase our expenses, subject us to liabilities and increase our risk of litigation, all of which could harm our business. If we use cash to acquire technologies, products, or companies, it may divert resources otherwise available for other purposes. If we use our common stock to acquire

technologies, products, or companies, our shareholders may experience substantial dilution. If we fail to manage any expansions or acquisition, our business could be impaired.

Our agreements and contracts entered into with partners and other third parties may not be successful.

We signed in the past and may pursue in the future contracts and agreements with third parties that would assist our marketing, manufacturing, selling, and distribution efforts. We cannot assure you that any agreements or arrangements entered into will be successful.

The current disruptions in the financial markets could affect our ability to obtain debt financing on favorable terms (or at all) and have other adverse effects on us.

The United States credit markets have recently experienced historic dislocations and liquidity disruptions which have caused financing to be unavailable in many cases and even if available caused spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers able to find financing less attractive, and in many cases have resulted in the unavailability of certain types of debt financing. Continued uncertainty in the credit markets may negatively impact our ability to access debt financing on favorable terms or at all. The failure to renew our existing revolving credit facilities when such facilities expire in December 2009 would have a material adverse affect on our financial condition and results of operations. In addition, Federal legislation to deal with the current disruptions in the financial markets could have an adverse affect on our financial condition and results of operations.

The fluctuation of our quarterly results may adversely affect the trading price of our common stock.

Our revenues and results of operations have in the past and will likely vary in the future from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate. You should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. It is likely that in some future quarters, our results of operations may be below the expectations of public market analysts and investors. In this event, the price of our common stock may fall.

We may not be able to attract and retain additional key management, sales and marketing and technical personnel, or we may lose existing key management, sales and marketing or technical personnel, which may delay our development and marketing efforts.

We depend on a number of key management, sales and marketing and technical personnel. The loss of the services of one or more key employees could delay the achievement of our development and marketing objectives. Our success will also depend on our ability to attract and retain additional highly qualified management, sales and marketing and technical personnel to meet our growth goals. We face intense competition for qualified personnel, many of whom are often subject to competing employment offers, and we do not know whether we will be able to attract and retain such personnel.

Future changes in financial accounting standards or practices or existing taxation rules or practices may cause adverse or unexpected revenue fluctuations and affect our reported results of operations.

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation practice have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Item 1B. Unresolved Staff Comments.

Not Applicable.

Item 2. Properties.

The Company occupies approximately 45,500 square feet at 1938 New Highway, Farmingdale, New York under a lease which expires on June 30, 2010. The rental amount, which is approximately \$40,000 per month and includes a pro rata share of real estate taxes, water and sewer charges, and other charges which are assessed on the leased premises or the land upon which the leased premises are situated. Labcaire occupies a 20,000 square foot facility in North Somerset, England, under a lease expiring in June 2017. The rental amount is approximately \$20,000 per month. Labcaire owned the building up until June 2007 when it was sold for \$3,600,000. Sonora occupies approximately 29,000 square feet in Longmont, Colorado under a lease expiring in November 2011. The rental amount is approximately \$21,000 per month and includes a pro rata share of real estate taxes, water and sewer charges, and other charges which are assessed on the leased premises or the land upon which the leased premises are situated. The Company believes that the leased facilities are adequate for its present needs.

Labcaire sold its building in the UK in June 2007 in a sale and leaseback transaction with TESCO Ltd. ("Tesco"). Tesco intends to utilize the property to expand its operations which will require Labcaire to relocate to another facility upon Tesco's receiving permission to expand from the local authorities. Labcaire sold the building for \$3.6 million and recorded a deferred gain of \$1.6 million which will be amortized over the 10 year lease period. Upon Tesco's receiving permission to expand its facilities, which is expected in the next 1 to 4 years, Tesco will cancel the lease. Upon

Labcaire's vacating the premises, Tesco will pay Labcaire an additional \$1.5 million.

Item 3. Legal Proceedings.

A jury in the District Court of Boulder County, Colorado returned a verdict against Sonora during the Company's Fiscal 2005 fourth quarter in the amount of \$419,000. During fiscal 2008, the judgment was decreased to \$324,000 and the \$95,000 reduction is included in other income. The case involved royalties claimed on recoating of transesophageal probes, which is a process utilized by Sonora. Approximately 80% of the judgment was based on the jury's estimate of royalties for potential sales of the product in the future. Sonora has moved for judgment notwithstanding the verdict based on, among other things, the award of damages for future royalties. Sonora has also moved for a new trial in the case.

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

No matters were submitted to a vote of the Company's security holders during the last quarter of the fiscal year ended June 30, 2008.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

- (a) The Company's common stock, \$.01 par value ("Common Stock"), is listed on the Nasdaq Global Market ("Nasdaq") under the symbol "MSON".

The following table sets forth the high and low sales prices for the Common Stock during the periods indicated as reported by Nasdaq.

| Fiscal 2008 : | High | Low |
|----------------|---------|---------|
| First Quarter | \$ 6.30 | \$ 3.82 |
| Second Quarter | 7.00 | 4.25 |
| Third Quarter | 4.73 | 3.69 |
| Fourth Quarter | 4.41 | 3.09 |

| Fiscal 2007 : | High | Low |
|----------------|---------|---------|
| First Quarter | \$ 5.58 | \$ 3.50 |
| Second Quarter | 5.03 | 3.25 |
| Third Quarter | 7.29 | 3.80 |
| Fourth Quarter | 7.49 | 5.38 |

- (b) As of September 24, 2008, the Company had 7,001,369 shares of Common Stock outstanding and 74 shareholders of record. This does not take into account shareholders whose shares are held in "street name" by brokerage houses.

- (c) The Company has not paid any dividends since its inception. The Company does not intend to pay any cash dividends in the foreseeable future, but intends to retain all earnings, if any, for use in its business operations.

Share Performance Graph

The following graph compares the cumulative total return on the Company's Common Stock during the last five fiscal years with the NASDAQ Total U.S. and Foreign Return Index and the NASDAQ Medical Devices, Instruments and Supplies Index during the same period. The graph shows the value, at the end of each of the last five fiscal years, of \$100 invested in the Common Stock or the indices on June 30, 2004. The graph depicts the change in value of the Company's Common Stock relative to the noted indices as of the end of each fiscal year and not for any interim period. Historical stock price performance is not necessarily indicative of future stock price performance.

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|------|------|------|------|------|
| MISONIX, INC. | 100 | 80 | 78 | 79 | 42 |
| NASDAQ Total U.S. Index | 100 | 101 | 107 | 128 | 112 |
| NASDAQ Medical Devices, Instruments and Supplies Index | 100 | 104 | 109 | 130 | 123 |

Equity Compensation Plan Information:

| Plan category | Number of securities issued upon exercise of outstanding options, warrants and rights | Weighted average price of outstanding options, warrants and rights | Number of securities remaining for future exercise under equity compensation plans including securities reflected in column (a) |
|--|--|---|--|
| Equity compensation plans approved by security holders | (a) | (b) | (c) |
| I. 1991 Plan | 30,000 | \$ 7.38 | - |
| II. 1996 Director's Plan | 175,000 | 5.34 | - |
| III. 1996 Plan | 266,278 | 5.47 | - |
| IV. 1998 Plan | 381,875 | 6.75 | 45,277 |
| V. 2001 Plan | 862,838 | 5.41 | 8,856 |
| VI. 2005 Employee Equity Incentive Plan | 31,850 | 4.48 | 468,150 |
| VII. 2005 Non-Employee Director Stock Option Plan | 75,000 | 5.42 | 125,000 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 1,822,841 | \$ 5.71 | 647,283 |

Item 6. Selected Financial Data.

Selected statement of operations data:

| | Year Ended June 30, | | | | |
|------------------------------|---------------------|---------------|---------------|---------------|---------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Net sales | \$ 45,639,706 | \$ 42,431,905 | \$ 39,487,293 | \$ 46,382,976 | \$ 39,059,066 |
| Net (loss) income | (2,887,811) | (1,349,517) | (3,759,437) | 935,705 | 1,718,945 |
| Net (loss) income per share- | | | | | |
| Basic | \$ (.41) | \$ (.19) | \$ (.55) | \$.14 | \$.26 |
| Net (loss) income per share- | | | | | |
| Diluted | \$ (.41) | \$ (.19) | \$ (.55) | \$.13 | \$.25 |

Selected balance sheet data:

| | June 30, | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Total assets | \$ 37,250,074 | \$ 38,745,744 | \$ 34,547,500 | \$ 38,085,936 | \$ 34,241,112 |
| Long-term debt and capital lease obligations | 225,909 | 177,059 | 1,145,279 | 1,240,324 | 1,264,480 |
| Total stockholders' equity | 18,442,444 | 21,406,641 | 22,254,806 | 25,094,160 | 23,743,176 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**Results of Operation:**

The following table sets forth, for the three most recent fiscal years, the percentage relationship to net sales of principal items in the Company's Consolidated Statements of Operations:

| | 2008 | Fiscal year ended June 30, 2007 | 2006 |
|---|---------------|---------------------------------------|--------|
| Net sales | 100% | 100% | 100% |
| Cost of goods sold | 57.6 | 58.3 | 62.8 |
| Gross profit | 42.4 | 41.7 | 37.2 |
| Selling expenses | 16.9 | 17.9 | 18.8 |
| General and administrative expenses | 23.1 | 22.2 | 25.9 |
| Research and development expenses | 6.6 | 7.3 | 9.2 |
| Total operating expenses | 46.6 | 47.4 | 53.9 |
| Loss from operations | (4.2) | (5.7) | (16.7) |
| Other income | .2 | .9 | 1.4 |
| Loss before minority interest and income taxes | (4.0) | (4.8) | (15.3) |
| Minority interest in net (income) loss of consolidated subsidiaries | (0.1) | 0.1 | - |
| Loss before income taxes | (4.1) | (4.7) | (15.3) |
| Income tax provision (benefit) | 2.2 | (1.6) | (5.8) |
| Net loss | (6.3)% | (3.2)% | (9.5)% |

The following discussion and analysis provides information which the Company's management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein.

All of the Company's sales to date have been derived from the sale of medical device products, which include manufacture and distribution of ultrasonic medical device products, and laboratory and scientific products, which include ultrasonic equipment for scientific and laboratory purposes, and ductless fume enclosures for filtration of gaseous emissions in laboratories and hospitals.

Fiscal years ended June 30, 2008 and 2007:

Net sales: Net sales increased \$3,207,801 to \$45,639,706, in fiscal 2008 from \$42,431,905 in fiscal 2007. This difference in net sales is principally due to an increase in laboratory and scientific products sales of \$2,474,979 to \$21,366,256 in fiscal 2008 from \$18,891,277 in fiscal 2007. This difference in net sales is also due to an increase in sales of medical device products of \$732,822 to \$24,273,450 in fiscal 2008 from \$23,540,628 in fiscal 2007. The increase in sales of medical device products is principally due to an increase in sales of diagnostic medical device products. The increase in sales of diagnostic medical device products was attributable to several new customers, an increase in customer demand for several new products and increased repair capability. The increase in sales of laboratory and scientific products is due to a \$2,157,509 increase in Labcaire products sales, an increase in ultrasonic product sales and an increase in ductless fume enclosure product sales, partially offset by a decrease in sales of wet scrubber products. The Company has intentionally limited the opportunities it pursues for wet scrubber products. The increase in Labcaire sales of \$2,157,509 is due to shipments of its new ISIS endoscope cleaning system and the strengthening of the English Pound versus the U.S. dollar, which accounted for approximately \$487,000 of the sales increase. The increase in ultrasonic product sales and ductless fume enclosure product sales is due to an increase in customer demand for several products including the new S-4000 digital sonicator and is not attributable to a single customer, distributor or any other specific factor.

Export sales from the United States are remitted in U.S. dollars and export sales for Labcaire are remitted in English Pounds. UKHIFU sales are remitted in English Pounds and Misonix, Ltd. sales to date have been remitted in English pounds and Euros. To the extent that the Company's revenues are generated in English Pounds, its operating results were translated for reporting purposes into U.S. dollars using weighted average rates of 2.00 and 1.93 for the years ended June 30, 2008 and 2007, respectively. A strengthening of the English Pound and Euro, in relation to the U.S. dollar, will have the effect of increasing recorded revenues and profits, while a weakening of the English Pound and Euro will have the opposite effect. Since the Company's operations in England generally set prices and bids for contracts in English Pounds, a strengthening of the English Pound, while increasing the value of its UK assets, might place the Company at a pricing disadvantage in bidding for work from manufacturers based overseas. The Company collects its receivables predominately in the currency of the country the subsidiary resides in. The Company has not engaged in foreign currency hedging transactions, which include forward exchange agreements. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk."

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

| | Year ended June 30, | |
|-------------------|---------------------|---------------|
| | 2008 | 2007 |
| United States | \$ 24,600,948 | \$ 24,333,035 |
| United Kingdom | 14,107,027 | 11,536,440 |
| Europe | 2,842,250 | 3,713,012 |
| Asia | 1,856,016 | 1,673,480 |
| Canada and Mexico | 720,783 | 452,641 |
| Middle East | 342,524 | 115,020 |
| Other | 1,170,158 | 608,277 |
| | \$ 45,639,706 | \$ 42,431,905 |

Summarized financial information for each of the segments for the years ended June 30, 2008 and 2007 are as follows:

For the year ended June 30, 2008:

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| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|-------------------------------|----------------------------|---|--------------------------------------|----------------|
| Net sales | \$ 24,273,450 | \$ 21,366,256 | \$ - | \$ 45,639,706 |
| Cost of goods sold | 12,530,534 | 13,767,370 | - | 26,297,904 |
| Gross profit | 11,742,916 | 7,598,886 | - | 19,341,802 |
| Selling expenses | 5,031,208 | 2,695,701 | - | 7,726,909 |
| Research and development | 1,982,341 | 1,039,728 | - | 3,022,069 |
| General and administrative | - | - | 10,518,550 | 10,518,550 |
| Total operating expenses | 7,013,549 | 3,735,429 | 10,518,550 | 21,267,528 |
| Income (loss) from operations | \$ 4,729,367 | \$ 3,863,457 | \$ (10,518,550) | \$ (1,925,726) |

For the year ended June 30, 2007:

| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|-------------------------------|----------------------------|---|--------------------------------------|----------------|
| Net sales | \$ 23,540,628 | \$ 18,891,277 | \$ - | \$ 42,431,905 |
| Cost of goods sold | 13,336,430 | 11,388,084 | - | 24,724,514 |
| Gross profit | 10,204,198 | 7,503,193 | - | 17,707,391 |
| Selling expenses | 5,002,878 | 2,593,276 | - | 7,596,154 |
| Research and development | 1,953,872 | 1,159,392 | - | 3,113,264 |
| General and administrative | - | - | 9,417,038 | 9,417,038 |
| Total operating expenses | 6,956,750 | 3,752,668 | 9,417,038 | 20,126,456 |
| Income (loss) from operations | \$ 3,247,448 | \$ 3,750,525 | \$ (9,417,038) | \$ (2,419,065) |

Net sales for the three months ended June 30, 2008 were \$11,704,390 compared to \$11,566,017 for the three months ended June 30, 2007. The increase of \$138,373 is due to an increase in laboratory product sales of \$177,467, primarily due to an increase in Labcaire and ultrasonic products sales. Therapeutic medical device products sales decreased approximately \$238,000 and diagnostic medical device products sales increased approximately \$199,000. The increase in diagnostic medical device products sales was primarily attributable to the sale of equipment to a probe repair lab in Europe and fees earned for training their personnel.

Summarized financial information for each of the segments for the three months ended June 30, 2008 and 2007 are as follows:

For the three months ended June 30, 2008:

| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|-------------------------------|----------------------------|---|--------------------------------------|----------------|
| Net sales | \$ 6,418,618 | \$ 5,285,772 | \$ - | \$ 11,704,390 |
| Cost of goods sold | 3,477,492 | 3,597,911 | - | 7,075,403 |
| Gross profit | 2,941,126 | 1,687,861 | - | 4,628,987 |
| Selling expenses | 1,464,348 | 682,239 | - | 2,146,587 |
| Research and development | 412,858 | 239,528 | - | 652,386 |
| General and administrative | - | - | 2,922,327 | 2,922,327 |
| Total operating expenses | 1,877,206 | 921,767 | 2,922,327 | 5,721,300 |
| Income (loss) from operations | \$ 1,063,920 | \$ 766,094 | \$ (2,922,327) | \$ (1,092,313) |

For the three months ended June 30, 2007:

| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|-------------------------------|----------------------------|---|--------------------------------------|---------------|
| Net sales | \$ 6,457,712 | \$ 5,108,305 | \$ - | \$ 11,566,017 |
| Cost of goods sold | 3,740,441 | 3,296,803 | - | 7,037,244 |
| Gross profit | 2,717,271 | 1,811,502 | - | 4,528,773 |
| Selling expenses | 1,301,426 | 769,943 | - | 2,071,369 |
| Research and development | 450,019 | 279,342 | - | 729,361 |
| General and administrative | - | - | 2,095,369 | 2,095,369 |
| Total operating expenses | 1,751,445 | 1,049,285 | 2,095,369 | 4,896,099 |
| Income (loss) from operations | \$ 965,826 | \$ 762,217 | \$ (2,095,369) | \$ (367,326) |

Gross profit: Gross profit increased to 42.4% in fiscal 2008 from 41.7% in fiscal 2007. Gross profit for medical device products increased to 48.4% in fiscal 2008 from 43.3% in fiscal 2007. Gross profit for therapeutic medical device products was positively impacted by a favorable product mix due to increased sales of the Sonastar ultrasonic surgical aspirator product in the United States and foreign markets and increased sales of ultrasonic assisted liposuction products. Sales of the Company's AutoSonix products to USS which have lower gross profits, decreased in fiscal 2008 as percentage of total sales. The fiscal 2008 period also benefited from a favorable mix of diagnostic medical device products sales. Gross profit for laboratory and scientific products decreased to 35.6% in fiscal 2008 from 39.7% in fiscal 2007 due to lower margins at Labcaire due to higher costs related to the ISIS units shipped. Gross profit for the three months ended June 30, 2008 increased to 39.5% from 39.2% in the three months ended June 30, 2007. Gross margins for medical device products sales increased to 45.8% in the 2008 period from 42.1% in the 2007 period. The increase was due to a favorable product mix in both therapeutic and diagnostic product sales. Gross profit for laboratory and scientific products decreased to 31.9% in the 2008 period from 35.5% in the 2007 period. The decrease in gross profit was primarily due to lower margins in Labcaire due to higher costs related to the ISIS units shipped and lower margins for fume enclosure product sales due to unfavorable product mix.

Selling expenses: Selling expenses increased \$130,755 to \$7,726,909 (16.9% of net sales) in fiscal 2008 from \$7,596,154 (17.9% of net sales) in fiscal 2007. Laboratory and scientific products selling expenses increased approximately \$102,000, predominately due to increased selling and service expenses at Labcaire related to higher sales and the impact of the stronger English Pound of approximately \$66,000. Selling expenses for therapeutic medical device products increased approximately \$80,000, principally due to new hires in medical sales management and increased expenses in Europe related to the Company's HIFU products, partially offset by reduced expenses related to trade shows and exhibitions. Selling expenses related to diagnostic medical device products decreased approximately \$51,000, principally due to decreased costs associated with consignment equipment. Selling expenses for the three months ended June 30, 2008 increased \$75,218 to \$2,146,587 (18.3% of net sales) from \$2,071,369 (17.9% of net sales) in the three months ended June 30, 2007. Selling expenses related to therapeutic medical device products sales increased approximately \$163,000 principally due to increased staffing. Laboratory and scientific products selling expenses decreased approximately \$88,000, principally due to lower costs associated with demo equipment.

General and administrative expenses: Total corporate and unallocated expenses increased \$1,101,512 in fiscal 2008 to \$10,518,550 from \$9,417,038 in fiscal 2007. General and administrative expenses increased in fiscal 2008, principally due to increased employee related expense of approximately \$763,000, increased depreciation expense, increased recruiting fees of approximately \$100,000 related to adding personnel to the therapeutic medical group, increased bank fees and higher consulting fees, which were partially offset by decreased insurance expense and decreased bad debt expense. The higher consulting fees include approximately \$200,000 related to the implementation of Section 404(a) of the Sarbanes-Oxley Act of 2002 ("Section 404(a)"). The Company entered into revolving credit facility with Wells Fargo Bank on December 29, 2006 and bank fees in the 2008 period are twelve months compared to six months in fiscal 2007. General and administrative expenses for the three months ended June 30, 2008 increased \$826,958 to \$2,922,327 from \$2,095,369 for the three months ended June 30, 2007. The increase was due to increased employee related expense of approximately \$467,000, consulting costs of approximately \$115,000 related to the implementation of Section 404(a) and approximately \$74,000 of higher costs related to the Company's HIFU business in Europe. The increased salary expense includes bonus expense at Sonora which exceeded its profit objectives for fiscal 2008.

Research and development expenses: Research and development expenses decreased \$91,195 to \$3,022,069 in fiscal 2008 from \$3,113,264 in fiscal 2007. Research and development expenses for medical device products increased approximately \$28,000. Research and development expenses for diagnostic medical device products increased approximately \$59,000 related to developing new products and services which were introduced during the current fiscal year. Research and development expenses for therapeutic medical devices decreased approximately \$31,000. The decrease is primarily due to decreased salary and consulting fees of \$241,000 which were partially offset by a milestone charge of \$210,000 from Focus related to the HIFU kidney cancer research project. Laboratory and scientific products research and development expenses decreased approximately \$120,000 due to reduced efforts on the Labcaire ISIS product which was introduced and launched in the fourth quarter of fiscal 2007 and completing the S-4000 digital Sonicator product introduced during the first quarter of fiscal 2008. Research and development expense for the three months ended June 30, 2008 decreased \$76,975 to \$652,386 from \$729,361 in the three months ended June 30, 2007. In the three months ended June 30, 2008, approximately \$50,000 of medical device products development expense related to improvements to existing therapeutic medical device products was deferred which was partially offset by increased expenses related to diagnostic medical products. Research and development expenses for laboratory and scientific products decreased in the three months ended June 30, 2008 due to reduced efforts related to the Labcaire ISIS product and the completion of the S-4000 digital Sonicator product.

Other Income: Other income decreased \$258,235 in fiscal 2008 to \$104,584 from \$363,819 in fiscal 2007. The fiscal 2007 year included foreign currency exchange gains of approximately \$149,000 which were primarily attributable to an exchange gain resulting from the payment of an intercompany loan denominated in British Pounds by Labcaire to the Company. Royalty and license fee income from USS decreased approximately \$132,000 in fiscal 2008 due to

decreased sales by USS of the Company's Autosonix product. In addition, royalty expense in fiscal 2008 increased approximately \$231,000, which increase was attributable to licensed probe repair technology, the sale of Acoustic Power tanks and increased sales of Lysonix medical device products. The decrease in other income in fiscal 2008 was partially offset by \$150,000 from the realization of a previously impaired Secured Cumulative Convertible Debenture from Focus during the second quarter of fiscal 2008 which was used to reduce a milestone payment to Focus and reduced interest expense of \$69,000. The fiscal 2007 period included a loss of \$60,000 from the sale of equipment. Other income (expense) decreased \$39,843 to \$(32,366) for the three months ended June 30, 2008 from \$7,477 for the three months ended June 30, 2007. The decrease is due to decreased foreign currency exchange gains partially offset by decreased interest expense and decreased royalty expense. The three months ended June 30, 2007 included an exchange gain of approximately \$165,000 resulting from the payment of a loan denominated in British Pounds by Labcaire to the Company.

Income taxes: In fiscal 2008 the Company increased the valuation allowance related to deferred tax assets by approximately \$1,500,000 which increased income tax expense to an effective tax rate of 54.7%. In its assessment of whether it is more likely than not that some portion or all the deferred tax assets will be realized, management increased the valuation allowance for the deferred tax benefit related to U.S. federal loss carryforwards and unused tax credit carryforwards which are available to offset future taxable income. The effective tax rate in fiscal 2007 of 33.0% was favorably impacted by an additional \$98,000 of Research and Experimentation Credits provided by the enactment of the Tax Relief and Healthcare Act of 2006 (HR6111) which retroactively extended the tax credit for Research and Experimentation expenditures. The fiscal 2008 effective income tax rate differs from the statutory rate due to the impact of permanent differences related to SFAS123R stock-based compensation and non-deductible entertainment expenses on taxable income. In addition, the \$150,000 of income from the realization of a previously written off debt from Focus was not tax effected because the Company did not record an income tax benefit when the debt was originally written off.

Fiscal years ended June 30, 2007 and 2006

Net sales. Net sales of the Company's medical device products and laboratory and scientific products increased \$2,944,612 to \$42,431,905 in fiscal 2007 from \$39,487,293 in fiscal 2006. This difference in net sales is due to an increase in sales of medical device products of \$2,612,576 to \$23,540,628 in fiscal 2007 from \$20,928,052 in fiscal 2006. This difference in net sales is also due to an increase in laboratory and scientific product sales of \$332,036 to \$18,891,277 in fiscal 2007 from \$18,559,241 in fiscal 2006. The increase in sales of medical device products is due to an increase in sales of therapeutic medical device products of \$2,114,854 plus an increase of \$497,722 in sale of diagnostic medical device products. The increase in sales of therapeutic medical device products was primarily attributable to the increased units of the Sonablate 500. In fiscal 2007, the Company sold 4 Sonablate 500 units compared to 1 unit in fiscal 2006. Additionally, the Company acquired 60% of UKHIFU at the end of the third quarter of fiscal 2006 and the Company had the benefit of the fee per use revenue of \$903,000 for the entire fiscal 2007 year. The increase in sales of diagnostic medical device products was not attributable to a single customer, distributor or any other specific factor but an increase in customer demand for several products. The increase in sales of laboratory and scientific products is primarily due to a \$1,404,151 increase in Labcaire products, partially offset by a \$1,022,997 decrease in sales of wet scrubber products. The Company is being very selective in the opportunities it pursues for wet scrubber products. The increase in Labcaire sales of \$1,404,151 is due to an increase in Guardian endoscope products and services of \$540,222 and the strengthening of the British Pound versus the U.S. dollar of approximately \$863,929. The increase in ductless fume enclosure product sales is due to an increase in customer demand for several products and not attributable to a single customer, distributor or any other specific factor. Export sales from the United States are remitted in U.S. dollars and export sales for Labcaire are remitted in British pounds.

UKHIFU sales are remitted in British Pounds and Misonix, Ltd. sales to date have been remitted in Euros. To the extent that the Company's revenues are generated in British Pounds, its operating results were translated for reporting purposes into U.S. dollars using weighted average rates of 1.93 and 1.78 for the years ended June 30, 2007 and 2006, respectively. To the extent that the Company's revenues are generated in Euros, its operating results were translated for reporting purposes into U.S. dollars using a weighted average rate of 1.30 for the year ended June 30, 2007. A strengthening of the British Pound and Euro, in relation to the U.S. Dollar, will have the effect of increasing recorded revenues and profits, while a weakening of the British Pound and Euro will have the opposite effect. Since the Company's operations in England generally set prices and bids for contracts in British Pounds, a strengthening of the British Pound, while increasing the value of its UK assets, might place the Company at a pricing disadvantage in bidding for work from manufacturers based overseas. The Company collects its receivables predominately in the currency of the country the subsidiary resides in. The Company has not engaged in foreign currency hedging transactions, which include forward exchange agreements.

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

| | 2007 | 2006 |
|-------------------|---------------|---------------|
| United States | \$ 24,333,035 | \$ 25,049,213 |
| United Kingdom | 11,536,440 | 9,392,592 |
| Europe | 3,713,012 | 2,210,668 |
| Asia | 1,673,480 | 1,268,799 |
| Canada and Mexico | 452,641 | 640,009 |
| Middle East | 115,020 | 307,810 |
| Other | 608,277 | 618,202 |
| | \$ 42,431,905 | \$ 39,487,293 |

Summarized financial information for each of the segments for the years ended June 30, 2007 and 2006 are as follows:

For the year ended June 30, 2007:

| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|-------------------------------|----------------------------|---|--------------------------------------|----------------|
| Net sales | \$ 23,540,628 | \$ 18,891,277 | \$ - | \$ 42,431,905 |
| Cost of goods sold | 13,336,430 | 11,388,084 | - | 24,724,514 |
| Gross profit | 10,204,198 | 7,503,193 | - | 17,707,391 |
| Selling expenses | 5,002,878 | 2,593,276 | - | 7,596,154 |
| Research and development | 1,953,872 | 1,159,392 | - | 3,113,264 |
| General and administrative | - | - | 9,417,038 | 9,417,038 |
| Total operating expenses | 6,956,750 | 3,752,668 | 9,417,038 | 20,126,456 |
| Income (loss) from operations | \$ 3,247,448 | \$ 3,750,525 | \$ (9,417,038) | \$ (2,419,065) |

For the year ended June 30, 2006:

| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|----------------------------|----------------------------|---|--------------------------------------|----------------|
| Net sales | \$ 20,928,052 | \$ 18,559,241 | \$ - | \$ 39,487,293 |
| Cost of goods sold | 12,456,746 | 12,337,537 | - | 24,794,283 |
| Gross profit | 8,471,306 | 6,221,704 | - | 14,693,010 |
| Selling expenses | 4,739,079 | 2,689,076 | - | 7,428,155 |
| Research and development | 2,200,380 | 1,427,022 | - | 3,627,402 |
| General and administrative | - | - | 10,211,492 | 10,211,492 |
| Total operating expenses | 6,939,459 | 4,116,098 | 10,211,492 | 21,267,049 |
| Income from operations | \$ 1,531,847 | \$ 2,105,606 | \$ (10,211,492) | \$ (6,574,039) |

Net sales for the three months ended June 30, 2007 were \$11,566,017 compared to \$9,618,188 for the three months ended June 30, 2006. This increase of \$1,947,829 for the three months ended June 30, 2007 is due to an increase in sales of medical device products of \$1,199,212 and an increase in laboratory and scientific products sales of \$748,617. The increase in sales of medical device products was due to an increase in sales of diagnostic medical device products of \$642,883 and an increase of \$556,329 in sales of therapeutic medical device products. The increase in sales of diagnostic medical device products was not attributable to a single customer, distributor or any other specific factor. The increase in sales of therapeutic medical device products was mostly attributable to an increase in sales of the Company's neuroaspirator of approximately \$110,000, an increase in sales of the Company's lithotripter product of approximately \$123,000, an increase in sales of the Company's ultrasonic assisted liposuction product of approximately \$118,000 and an increase in sales of the Company's Sonablate 500 product of approximately \$171,000. The increase in laboratory and scientific products sales is due to an increase in Labcaire products sales of \$662,093, the strengthening of the English Pound versus the U.S. dollar of \$252,643, an increase in ultrasonic laboratory products sales of \$31,195 and an increase in ductless fume enclosure product sales of \$106,958, partially offset by a decrease in wet scrubber sales of \$257,086.

Summarized financial information for each of the segments for the three months ended June 30, 2007 and 2006 are as follows:

For the three months ended June 30, 2007:

| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|-------------------------------|----------------------------|---|--------------------------------------|---------------|
| Net sales | \$ 6,457,712 | \$ 5,108,305 | \$ - | \$ 11,566,017 |
| Cost of goods sold | 3,740,441 | 3,296,803 | - | 7,037,244 |
| Gross profit | 2,717,271 | 1,811,502 | - | 4,528,773 |
| Selling expenses | 1,301,426 | 769,943 | - | 2,071,369 |
| Research and development | 450,019 | 279,342 | - | 729,361 |
| General and administrative | - | - | 2,095,369 | 2,095,369 |
| Total operating expenses | 1,751,445 | 1,049,285 | 2,095,369 | 4,896,099 |
| Income (loss) from operations | \$ 965,826 | \$ 762,217 | \$ (2,095,369) | \$ (367,326) |

For the three months ended June 30, 2006:

| | Medical Devices | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|--------------------|----------------------------|---|--------------------------------------|--------------|
| Net sales | \$ 5,251,483 | \$ 4,366,705 | \$ - | \$ 9,618,188 |
| Cost of goods sold | 3,489,264 | 3,008,337 | - | 6,497,601 |

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| | | | | |
|----------------------------|--------------|------------|----------------|----------------|
| Gross profit | 1,762,219 | 1,358,368 | - | 3,120,587 |
| Selling expenses | 1,461,669 | 633,007 | - | 2,094,676 |
| Research and development | 513,847 | 374,512 | - | 888,359 |
| General and administrative | - | - | 2,683,324 | 2,683,324 |
| Total operating expenses | 1,975,516 | 1,007,519 | 2,683,324 | 5,566,359 |
| Income from operations | \$ (213,297) | \$ 350,849 | \$ (2,683,324) | \$ (2,545,772) |

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Gross profit. Gross profit increased to 41.7% in fiscal 2007 from 37.2% in fiscal 2006. Gross profit for medical device products increased to 43.3% in fiscal 2007 from 40.5% in fiscal 2006. Gross profit for laboratory and scientific products increased to 39.7% in fiscal 2007 from 33.5% in fiscal 2006. Gross profit for medical device products was impacted by a favorable order sales mix of therapeutic medical device products, partially offset by lower gross margins on sales to USS and an unfavorable mix of diagnostic medical device products sales. The increase in gross profit for laboratory and scientific products was due to higher gross profit for wet scrubbers, fume enclosure products and Labcaire products. Gross profit increased to 39.2% of sales in the three months ended June 30, 2007 from 32.4% of sales in the three months ended June 30, 2006. Gross profit for laboratory and scientific products increased to 35.5% of sales in the three months ended June 30, 2007 from 31.1% in the three months ended June 30, 2006. Gross profit for medical device products increased from 33.6% of sales in the three months ended June 30, 2006 to 42.1% of sales in the three months ended June 30, 2007. The increase in gross profit for laboratory and scientific products was predominately due to increased service revenue at Labcaire. The increase in gross profit for medical device products was predominately due to a favorable order mix for sales of therapeutic medical device products. The Company manufactures and sells both medical device products and laboratory and scientific products with a wide range of product costs and gross margin dollars as a percentage of revenues.

Selling expenses. Selling expenses increased \$167,999 or 2.3% to \$7,596,154 (17.9% of net sales) in fiscal 2007 from \$7,428,155 (18.8% of net sales) in fiscal 2006. Medical device products selling expenses increased \$263,799 due both to additional sales and marketing efforts for therapeutic medical device products. Laboratory and scientific products selling expenses decreased \$95,800. Selling expenses decreased \$23,307 to \$2,071,369 (17.9% of net sales) in the three months ended June 30, 2007 from \$2,094,676 (21.8% of net sales) in the three months ended June 30, 2006. Medical device products selling expenses decreased \$160,243 due to reduced sales and marketing efforts for therapeutic medical device products. Laboratory and scientific products selling expenses increased \$136,936, predominantly due to an increase in sales and marketing efforts for Labcaire's ISIS product.

General and administrative expenses. Total corporate and unallocated expenses decreased \$794,454 to \$9,417,038 in fiscal year 2007 from \$10,211,492 in fiscal 2006. The decrease is predominantly due to reduced stock-based compensation expense of approximately \$324,000 related to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, and a reduction in corporate general and administrative expenses relating to corporate insurance, legal fees and other accrued corporate expenses. Total general and administrative expenses decreased \$587,955 to \$2,095,369 in the three months ended June 30, 2007 from \$2,683,324 in the three months ended June 30, 2006. The decrease is predominantly due to a decrease in legal fees spent at Sonora and other accrued corporate expenses.

Research and development expenses. Research and development expenses decreased \$514,138 to \$3,113,264 in fiscal 2007 from \$3,627,402 in fiscal 2006. Research and development expenses related to medical device products decreased \$246,508 and research and development expenses related to laboratory and scientific products decreased \$267,630. Research and development expenses related to medical device products decreased predominately due to reduced efforts relating to the digital upgrade project for therapeutic medical device products, partially offset by efforts expended on the new laboratory and scientific digital sonicator product. The decrease in research and development expense relating to laboratory and scientific products is due to the reduced efforts on the Labcaire ISIS product which was introduced and launched during fiscal 2007 and the reduced efforts for wet scrubber products. The Company is not expanding efforts for research and development on wet scrubber products. Research and development expense decreased \$158,998 for the three months ended June 30, 2007 to \$729,361 from \$888,359 for the three months ended June 30, 2006. Research and development expense related to medical device products decreased \$63,828 and research and development expense related to laboratory scientific products decreased \$95,170. Research and development expense related to medical device products decreased predominately due to reduced efforts relating to the digital project upgrade for therapeutic medical device products, partially offset by efforts expanded on the new laboratory and scientific digital sonicator product. The decrease in laboratory and scientific products research and development expenses is due to reduced effort on the Labcaire ISIS product, which was introduced and launched

during fiscal 2007, and the reduced research and development efforts for wet scrubber products.

Other income (expense). Other income was \$363,819 in fiscal 2007 as compared to \$552,849 in fiscal 2006. The decrease of \$189,030 for the fiscal year was primarily due to an increase in interest expense of \$345,670, partially offset by increased foreign currency exchange gains of \$163,651 and increased royalty income of \$64,730. The increase in interest expense is principally attributable to increased borrowings in the United States.

Income taxes . The effective tax rate is 33.0% for the fiscal year ended June 30, 2007 as compared to an effective tax rate of 37.7% for the fiscal year ended June 30, 2006. The fiscal 2006 year tax rate includes the release of the valuation allowance of \$629,560 related to bad debt expenses which was partially offset by adjustments to state tax rates and the impact of lower foreign tax rates.

Critical Accounting Policies:

General: Financial Reporting Release No. 60, which was released by the SEC in December 2001, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of the financial statements. Note 1 of the Notes to Consolidated Financial Statements included in this Annual Report includes a summary of the Company's significant accounting policies and methods used in the preparation of its financial statements. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts, inventories, goodwill, property, plant and equipment and income taxes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company considers certain accounting policies related to accounts receivable, inventories, property, plant and equipment, revenue recognition, goodwill, income taxes and stock-based compensation to be critical policies due to the estimation process involved in each.

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 the same credit loss rates will be experienced in the future. The Company writes off accounts receivable when they become uncollectible.

Inventories : Inventories are stated at the lower of cost (first-in, first-out) or market and consist of raw materials, work-in-process and finished goods. Management evaluates the need to record adjustments for impairments of inventory on a quarterly basis. The Company's policy is to assess the valuation of all inventories, including raw materials, work-in-process and finished goods. Inventory items used for demonstration purposes, rentals or on consignment are classified in property, plant and equipment.

Property, Plant and Equipment : Property, plant and equipment are recorded at cost. The Company capitalizes items in excess of \$1,000. Minor replacements and maintenance and repair expenses are charged to expense as incurred. Depreciation of property and equipment is provided using the straight-line method over estimated useful lives ranging from 1 to 8 years. Depreciation of the Labcaire building was provided using the straight-line method over the estimated useful life of 50 years. Leasehold improvements are amortized over the life of the lease or the useful life of the related asset, whichever is shorter. The Company's policy is to periodically evaluate the appropriateness of the lives assigned to property, plant and equipment and to make adjustments if necessary. Inventory items included in property, plant and equipment are depreciated using the straight line method over estimated useful lives of 3 to 8 years.

Labcaire sold its owned building in the United Kingdom in June 2007 in a sale and leaseback agreement with Tesco. Tesco intends to utilize the property to expand its operations which will require Labcaire to relocate to another facility upon Tesco's receiving permission to expand from the local authorities. Labcaire sold the building for \$3.6 million and recorded a deferred gain of \$1.6 million which will be amortized over the 10 year lease period. Additionally, upon Tesco's receiving permission to expand its facilities which is expected in the next 1 to 4 years, Tesco will cancel the

lease. Upon Labcaire vacating the premises, Tesco will pay Labcaire an additional \$1.5 million under the agreement.

Revenue Recognition : The Company records revenue upon shipment for products shipped F.O.B. shipping point. Products shipped F.O.B. destination points are recorded as revenue when received at the point of destination. Shipments under agreements with distributors are not subject to return, and payment for these shipments is not contingent on sales by the distributor. The Company recognizes revenue on shipments to distributors in the same manner as with other customers. Fees from exclusive license agreements are recognized ratably over the terms of the respective agreements. Service contract and royalty income are recognized when earned.

Goodwill : 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 the common stock of Labcaire, 95% of the common stock of Sonora and the acquisitions of assets of Fibra Sonics, Sonic Technologies and CraMar and an equity interest in UKHIFU.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS Nos. 141 ("SFAS 141") and 142 ("SFAS 142"), "Business Combinations" and "Goodwill and Other Intangible Assets," respectively. SFAS 141 replaced Accounting Principles Board ("APB") Opinion 16 "Business Combinations" and requires the use of the purchase method for all business combinations initiated after June 30, 2001.

SFAS 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized, but instead be tested for impairment at least annually and whenever events or circumstances occur that indicate goodwill might be impaired. With the adoption of SFAS 142, as of July 1, 2001, the Company reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, only goodwill was determined to have an indefinite useful life and no adjustments were made to the amortization period or residual values of other intangible assets. The Company completed its annual goodwill impairment tests for fiscal 2008 and 2007 in the respective fourth quarter. There were no indicators that goodwill recorded was impaired.

Income Taxes : Income taxes are accounted for in accordance with SFAS No. 109, “Accounting for Income Taxes” (“SFAS No. 109”). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock-Based Compensation : Prior to July 1, 2005, the Company accounted for stock option plans SFAS No. 123. As permitted under this standard, compensation cost was recognized using the intrinsic value method described in APB No. 25 (“APB 25”). Effective July 1, 2005, the Company adopted the fair-value recognition provisions of SFAS No. 123R (revised 2004), “Share-Based Payment” (“SFAS No. 123R”) and SEC Staff Accounting Bulletin No. 107 using the modified-prospective transition method; therefore, prior periods have not been restated. See Note 8 of the Company’s consolidated financial statements for additional information regarding stock-based compensation.

Liquidity and Capital Resources:

Working capital at June 30, 2008 and June 30, 2007 was \$8,841,000 and \$11,165,090, respectively. For the twelve months ended June 30, 2008, cash provided by operations totaled \$614,000. A major source of cash from operations was the receipt of \$629,000 held by the Bank of America (“BOA”) to secure a standby letter of credit after the Company terminated its credit agreement with BOA. This amount was included in prepaid expenses and other current assets at June 30, 2007. The major use of cash from operations was related to increased accounts receivable and inventories of approximately \$410,000 and \$804,000, respectively, during the year ended June 30, 2008. The increases were attributable to the Company’s Labcaire subsidiary. For the fiscal year 2008, cash used in investing activities totaled \$1,665,000, primarily consisting of the purchase of property, plant and equipment during the regular course of business and the purchase of shares of the common stock of Sonora increasing the Company’s ownership to 95%. For the fiscal year 2008, cash used in financing activities was \$41,000, primarily consisting of net proceeds from short-term borrowings of \$399,000, offset by principal payments of capital lease obligations of approximately \$440,000.

Revolving Credit Facilities

On December 29, 2006, the Company and its subsidiaries, Sonora and Hearing Innovations (the Company, Sonora and Hearing Innovations collectively referred to as the “Borrowers”) and Wells Fargo Bank entered into a (i) Credit and Security Agreement and a (ii) Credit and Security Agreement Export-Import Subfacility (collectively referred to as the “Credit Agreements”). The aggregate credit limit under the Credit Agreements is \$8,000,000 consisting of a revolving facility in the amount of up to \$8,000,000. Up to \$1,000,000 of the revolving facility is available under the Export-Import Agreement as a subfacility for Export-Import working capital financing. All credit facilities under the Credit Agreements mature on December 29, 2009. Payment of amounts outstanding under the Credit Agreements may be accelerated upon the occurrence of an Event of Default (as defined in the Credit Agreements). All loans and advances under the Credit Agreements are secured by a first priority security interest in all of the Borrowers’ accounts

receivable, letter-of-credit rights, and all other business assets. The Borrowers have the right to terminate or reduce the credit facility prior to December 29, 2009 by paying a fee based on the aggregate credit limit (or reduction, as the case may be) as follows: (i) during year one of the Credit Agreements, 3%; (ii) during year two of the Credit Agreements, 2%; and (iii) during year three of the Credit Agreements, 1%.

The Credit Agreements, as amended, contain financial covenants requiring that the Borrowers (i) on a consolidated basis not have a Net Loss (as defined in the Credit Agreements) of more than (a) \$40,000 for the fiscal quarter ended March 31, 2008 and (b) \$175,000 for the fiscal quarter ending June 30, 2008 and (ii) not incur or contract to incur Capital Expenditures (as defined in the Credit Agreements) of more than \$1,000,000 in the aggregate in any fiscal year or more than \$1,000,000 in any one transaction. At June 30, 2008, the Borrowers were not in compliance with two of the covenants under the Credit Agreements. Wells Fargo Bank has given the Company a waiver of such non-compliance.

The available amount under the Credit Agreements is the lesser of \$8,000,000 or the amount calculated under the Borrowing Base (as defined in the Credit Agreements). The Borrowers must maintain a minimum outstanding amount of \$1,250,000 under the Credit Agreements at all times and pay a fee equal to the interest rate set forth on any such shortfall. Interest on amounts borrowed under the Credit Agreements is payable at Wells Fargo's prime rate of interest plus 1% per annum floating, payable monthly in arrears. The default rate of interest is 3% higher than the rate otherwise payable. A fee of ½ % per annum on the Unused Amount (as defined in the Credit Agreements) is payable monthly in arrears. At June 30, 2008, the balance outstanding under the Credit Agreement was \$2,745,000 and an additional \$875,000 was available under this line of credit.

Labcaire has a debt purchase agreement with Lloyds TSB Commercial Finance. The amount of this facility bears interest at the bank's base rate (5.5% at June 30, 2008) plus 2% and fluctuates based upon the outstanding United Kingdom and European receivables. The agreement expires September 28, 2008. The agreement covers all United Kingdom and European sales. At June 30, 2008, the balance outstanding under this credit facility was \$1,725,000 and Labcaire was in compliance with all financial covenants.

Commitments

The Company has commitments under a revolving credit facility, note payable and capital and operating leases that will be funded from operating sources. At June 30, 2008, the Company's contractual cash obligations and commitments relating to the revolving credit facilities, note payable and capital and operating leases are as follows:

| Commitment | Less than 1 year | 1-3 years | 4-5 years | After 5 years | Total |
|-----------------------------|-----------------------------|------------------|------------------|--------------------------|--------------|
| Revolving credit facilities | \$ 4,470,389 | \$ - | \$ - | \$ - | \$ 4,470,389 |
| Note payable | 246,888 | - | - | - | 246,888 |
| Capital leases | 307,325 | 225,909 | - | - | 533,234 |
| Operating leases | 1,146,724 | 1,736,181 | 633,094 | 957,792 | 4,473,791 |
| | \$ 6,171,326 | \$ 1,962,090 | \$ 633,094 | \$ 957,792 | \$ 9,724,302 |

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

The Company believes that its existing capital resources will enable it to maintain its current and planned operations for at least 18 months from the date hereof.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk:

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

Foreign Exchange Rates:

Approximately 46% of the Company's revenues in fiscal 2008 were received in British Pounds. To the extent that the Company's revenues are generated in British Pounds, its operating results are translated for reporting purposes into U.S. Dollars using weighted average rates of 2.00 and 1.93 for the fiscal year ended June 30, 2008 and 2007, respectively. A strengthening of the British Pound, in relation to the U.S. Dollar, will have the effect of increasing reported revenues and profits, while a weakening of the British Pound will have the opposite effect. Since the Company's operations in England generally sets prices and bids for contracts in British Pounds, a strengthening of the British Pound, while increasing the value of its UK assets, might place the Company at a pricing disadvantage in bidding for work from manufacturers based overseas. The Company collects its receivables predominately in the currency of the country the subsidiary resides in. Misonix, Ltd. invoices certain customers in Euros and as a result there is an exchange rate exposure between the British Pound and the Euro. The Company has not engaged in foreign

currency hedging transactions, which include forward exchange agreements.

Item 8. Financial Statements and Supplemental Data.

The report of the independent registered public accounting firm and consolidated financial statements listed in the accompanying index is filed as part of this Report. See “Index to Consolidated Financial Statements” on page 49.

QUARTERLY RESULTS OF OPERATIONS

The following table presents selected financial data for each quarter of fiscal 2008, 2007 and 2006. Although unaudited, this information has been prepared on a basis consistent with the Company’s audited consolidated financial statements and, in the opinion of the Company’s management, reflects all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of this information in accordance with accounting principles generally accepted in the United States. Such quarterly results are not necessarily indicative of future results of operations and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto.

QUARTERLY FINANCIAL DATA:

| | FISCAL 2008 | | | | |
|---|---------------|---------------|---------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | YEAR |
| Net sales | \$ 10,532,237 | \$ 11,600,053 | \$ 11,803,026 | \$ 11,704,390 | \$ 45,639,706 |
| Gross profit | 4,665,794 | 5,164,575 | 4,882,446 | 4,628,987 | 19,341,802 |
| Operating expenses | 4,904,507 | 5,454,306 | 5,187,415 | 5,721,300 | 21,267,528 |
| Loss from operations | (238,713) | (289,731) | (304,969) | (1,092,313) | (1,925,726) |
| Other income | (21,161) | 85,941 | 73,170 | (32,366) | 105,584 |
| Minority interest in net income (loss) of consolidated subsidiaries | 9,444 | 13,867 | 24,269 | (1,404) | 46,176 |
| Income tax (benefit) expense | (43,054) | (100,477) | (62,031) | 1,227,055 | 1,021,493 |
| Net income (loss) | \$ (226,264) | \$ (117,180) | \$ (194,037) | \$ (2,350,330) | \$ (2,887,811) |
| Net loss per share-Basic | \$ (0.03) | \$ (0.02) | \$ (0.03) | \$ (0.34) | \$ (0.41) |
| Net loss per share – Diluted | \$ (0.03) | \$ (0.02) | \$ (0.03) | \$ (0.34) | \$ (0.41) |

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| | FISCAL 2007 | | | | |
|---|--------------|---------------|---------------|---------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | YEAR |
| Net sales | \$ 9,642,878 | \$ 10,639,086 | \$ 10,583,924 | \$ 11,566,017 | \$ 42,431,905 |
| Gross profit | 3,931,866 | 4,786,755 | 4,459,997 | 4,528,773 | 17,707,391 |
| Operating expenses | 4,821,739 | 5,055,433 | 5,353,185 | 4,896,099 | 20,126,456 |
| Loss from operations | (889,873) | (268,678) | (893,188) | (367,326) | (2,419,065) |
| Other income | 133,658 | 141,417 | 81,267 | 7,477 | 363,819 |
| Minority interest in net income (loss) of consolidated subsidiaries | 31,339 | (5,840) | (38,318) | (28,115) | (40,934) |
| Income tax benefit | (245,138) | (144,975) | (244,567) | (30,115) | (664,795) |
| Net loss | \$ (542,416) | 23,554 | \$ (529,036) | \$ (301,619) | \$ (1,349,517) |
| Net loss per share-Basic | \$ (.08) | \$ - | \$ (.08) | \$ (.04) | \$ (.19) |
| Net loss per share -Diluted | \$ (.08) | \$ - | \$ (.08) | \$ (.04) | \$ (.19) |

| | FISCAL 2006 | | | | |
|---|----------------|---------------|---------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | YEAR |
| Net sales | \$ 9,213,486 | \$ 10,376,318 | \$ 10,279,301 | \$ 9,618,188 | \$ 39,487,293 |
| Gross profit | 3,538,445 | 3,971,453 | 4,062,525 | 3,120,587 | 14,693,010 |
| Operating expenses | 5,315,150 | 4,932,445 | 5,353,095 | 5,666,359 | 21,267,049 |
| Income (loss) from operations | (1,776,705) | (960,992) | (1,290,570) | (2,545,772) | (6,574,039) |
| Other income | 174,859 | 139,332 | 144,143 | 94,515 | 552,849 |
| Minority interest in net income (loss) of consolidated subsidiaries | 16,339 | 2,785 | (6,465) | (113) | 12,546 |
| Income tax provision (benefit) | (312,822) | (317,340) | (310,844) | (1,333,293) | (2,274,299) |
| Net income | \$ (1,305,363) | \$ (507,105) | \$ (829,118) | \$ (1,117,851) | \$ (3,759,437) |
| Net income per share-Basic | \$ (.19) | \$ (.07) | \$ (.12) | \$ (.16) | \$ (.55) |
| Net income per share -Diluted | \$ (.19) | \$ (.07) | \$ (.12) | \$ (.16) | \$ (.55) |

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable.

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Item 9A(T). Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”)) that are designed to assure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Annual Report, under the supervision and with the participation of our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of that date.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, the principal executive officer and principal financial officer, and effected by the board of directors and management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US Generally Accepted Accounting Principles (“GAAP”) including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and the directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that internal control over financial reporting was effective as of June 30, 2008.

This Annual Report does not include an attestation report of the Company’s current independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s current independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission (“SEC”) that permit the Company to provide only management’s report in this Annual Report.

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III**Item 10. Directors and Executive Officers of the Registrant.**

The Company currently has six Directors. Their term expires at the next Annual Meeting of Shareholders. The following table contains information regarding all Directors and executive officers of the Company:

| Name | Age | Principal Occupation | Director Since |
|-------------------------|------------|---|-----------------------|
| John Gildea | 65 | Director | 2004 |
| Howard Alliger | 81 | Director | 1971 |
| Dr. Charles Miner III | 57 | Director | 2005 |
| T. Guy Minetti | 57 | Director | 2003 |
| Thomas F. O'Neill | 62 | Director | 2003 |
| Michael A. McManus, Jr. | 65 | Director, President and | 1998 |
| Richard Zarembo | 53 | Chief Executive Officer Senior Vice President, Chief Financial Officer, Secretary and Treasurer | — |
| Michael C. Ryan | 62 | Senior Vice President, Medical Division | |
| Dan Voic | 46 | Vice President of Research and Development and Engineering | — |
| Ronald Manna | 54 | Vice President of New Product Development and Regulatory Affairs | — |
| Frank Napoli | 51 | Vice President of Operations | — |

The following is a brief account of the business experience for the past five years of the Company's Directors and executive officers:

John W. Gildea is the founding principal of Gildea Management Co., a management company of special situations with middle market companies in the United States and Central Europe. From 2000 to 2003 Gildea Management Co. formed a joint venture with J.O. Hambro Capital Management Co. to manage accounts targeting high yield debt and small capitalization equities. From 1996 to 2000 Gildea Management Co. formed and founded Latona Europe, a joint venture between Latona U.S., Lazard Co., and Gildea Management Co. to restructure several Czech Republic companies. Before forming Gildea Management Co. in 1990, Mr. Gildea managed the Corporate Series Group at Donaldson, Lufkin and Jenrette, an investment banking firm. Mr. Gildea is a graduate of the University of Pittsburgh.

Howard Alliger founded the Company's predecessor in 1955 and the Company was a sole proprietorship until 1960. The Company name then was Heat Systems-Ultrasonics. Mr. Alliger was President of the Company until 1982 and Chairman of the Board until 1996. In 1996 Mr. Alliger stepped down as Chairman and ceased to be a corporate officer. He has been awarded 23 patents and has published various papers on ultrasonic technology. For three years,

ending in 1991, Mr. Alliger was the President of the Ultrasonic Industry Association. Mr. Alliger holds a B.A. degree in economics from Allegheny College and also attended Cornell University School of Engineering for four years. He has also established, and is President of, two privately held entities which are engaged in pharmaceutical research and development.

Dr. Charles Miner III currently practices internal medicine in Darien, Connecticut. Dr. Miner is on staff at Stamford and Newark Hospitals and since 1982 has held a teaching position at Columbia Presbyterian Hospital from 1982. Dr. Miner received his M.D. from the University Of Cincinnati College Of Medicine in 1979 and received a Bachelor of Science from Lehigh University in 1974.

T. Guy Minetti is the founder and Managing Director of Senior Resource Advisors LLC, a management consulting firm. Prior to being Managing Director of Senior Resource Advisors LLC, Mr. Minetti served as the Vice Chairman of the Board of Directors of 1-800-Flowers.Com, a publicly-held specialty gift retailer based in Westbury, New York. Before joining 1-800-Flowers.Com in 2000, Mr. Minetti was the Managing Director of Bayberry Advisors, an investment-banking boutique he founded in 1989 to provide corporate finance advisory services to small-to-medium-sized businesses. From 1981 through 1989, Mr. Minetti was a Managing Director of the investment banking firm, Kidder, Peabody & Company. While at Kidder, Peabody, Mr. Minetti worked in the investment banking and high yield bond departments. Mr. Minetti is a graduate of St. Michael's College.

Thomas F. O'Neill, a founding principal of Sandler O'Neill & Partners L.P., an investment banking firm, began his Wall Street career at L.F. Rothschild. Mr. O'Neill specialized in working with financial institutions in Rothschild's Bank Service Group from 1972. He was appointed Managing Director of the Bank Service Group, a group consisting of fifty-five professionals, in 1984. In 1985, he became a Bear Stearns Managing Director and Co-Manager of the Group. Mr. O'Neill serves on the Board of Directors of Archer-Daniels-Midland Company and The Nasdaq Stock Market, Inc. Mr. O'Neill is a graduate of New York University and a veteran of the United States Air Force.

Michael A. McManus, Jr., became President and Chief Executive Officer of the Company in November 1999. From November 1991 to March 1999, Mr. McManus was President and Chief Executive Officer of New York Bancorp, Inc. Prior to New York Bancorp, Inc., Mr. McManus held senior positions with Jamcor Pharmaceutical, Inc., Pfizer, Inc. and Revlon Corp. Mr. McManus also spent several years as an Assistant to President Reagan. Mr. McManus serves on the Board of Directors of the following publicly traded companies: A. Schulman, Inc. and Novavax, Inc. Mr. McManus holds a B.A. degree in Economics from the University of Notre Dame and a Juris Doctorate from Georgetown University Law Center.

Richard Zarembo became Senior Vice President in 2004. He became Vice President and Chief Financial Officer in February 1999. From March 1995 to February 1999, he was the Vice President and Chief Financial Officer of Converse Information Systems, Inc., a manufacturer of digital voice recording systems. Previously, Mr. Zarembo was Vice President and Chief Financial Officer of Miltope Group, Inc., a manufacturer of electronic equipment. Mr. Zarembo is a licensed certified public accountant in the state of New York and holds BBA and MBA degrees in Accounting from Hofstra University.

Michael C. Ryan became Senior Vice President, Medical Division in October 2007. Prior thereto, he served as Senior Vice President and General Manager for Nomos Radiation Oncology from 2006 to October 2007. From 1992 to 2005, Mr. Ryan was Executive Vice President, Business Development for Inter V. Mr. Ryan holds a Bachelor of Arts in Economics from John F. Kennedy College.

Dan Voic became Vice President of Research and Development and Engineering in January 2002. Prior thereto, he served as Engineering Manager and Director of Engineering with the Company. Mr. Voic has approximately 15 years experience in both medical and laboratory and scientific products development. Mr. Voic holds an M.S. degree in mechanical engineering from Polytechnic University "Traian Vuia" of Timisoara, Romania and an MS degree in applied mechanics from Polytechnic University of New York.

Ronald Manna became Vice President of New Product Development and Regulatory Affairs of the Company in January 2002. Prior thereto, Mr. Manna served as Vice President of Research and Development and Engineering, Vice President of Operations and Director of Engineering of the Company. Mr. Manna holds a B.S. degree in mechanical engineering from Hofstra University.

Frank Napoli became Vice President of Operations in September 2004. From March 2004 to September 2004, Mr. Napoli was Vice President of Manufacturing for Spellman High Voltage Electronics Corp. Previously, Mr. Napoli was Director of Manufacturing for Telephonics Corporation. Mr. Napoli holds a B.S. degree in Mechanical

Engineering from the New York Institute of Technology.

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Executive officers are elected annually by, and serve at the discretion of, the board of directors.

**DIRECTOR COMPENSATION FOR THE 2008
FISCAL YEAR**

| Name | Fees Earned or Paid in Cash (\$) | Option Awards (\$) | Total |
|-------------------------|-------------------------------------|-----------------------|--------|
| Michael A. McManus, Jr. | — | — | — |
| John Gildea | 23,750 | — | 23,750 |
| Howard Alliger | 18,750 | — | 18,750 |
| Dr. Charles Miner III | 23,750 | — | 23,750 |
| T. Guy Minetti | 28,750 | — | 28,750 |
| Thomas F. O'Neill | 23,750 | — | 23,750 |

Outstanding options at fiscal year end for Messrs. O'Neill and Minetti are 60,000 shares; Mr. Alliger is 70,000 shares and Messrs. Gildea and Miner are 30,000 shares. Each non-employee director receives an annual fee of \$15,000. The Chairman of the Audit Committee receives an additional \$10,000 per year cash compensation and other members of the Audit Committee receive an additional \$5,000 per year cash compensation. Each non-employee director is also reimbursed for reasonable expenses incurred while traveling to attend meetings of the Board of Directors or while traveling in furtherance of the business of the Company.

Section 16 (a) Beneficial Ownership Reporting Compliance of the Securities Exchange Act

Section 16(a) of the Exchange Act requires the Company's executive officers, directors and persons who own more than 10% of a registered class of the Company's equity securities ("Reporting Persons") to file reports of ownership and changes in ownership on Forms 3, 4, and 5 with the SEC and the National Association of Securities Dealers, Inc. (the "NASD"). These Reporting Persons are required by SEC regulation to furnish the Company with copies of all Forms 3, 4 and 5 they file with the SEC and NASD. Based solely on the Company's review of the copies of the forms it has received, the Company believes that all Reporting Persons complied on a timely basis with all filing requirements applicable to them with respect to transactions during fiscal year 2008.

Code of Ethics

The Company has adopted a code of ethics that applies to all of its directors, officers (including its Chief Executive Officer, Chief Financial Officer, Controller and any person performing similar functions) and employees. The Company has filed a copy of this Code of Ethics as Exhibit 14 to this Form 10-K. The Company has also made the Code of Ethics available on its website at www.MISONIX.COM.

Audit Committee

The Company has a separately-designated standing audit committee established in accordance with section 3(a) (58) (A) of the Exchange Act. The members of the Audit Committee are Messrs. Gildea, Miner, Minetti and O'Neill. The Board of Directors has determined that each member of the Audit Committee is "independent" not only under the Qualitative Listing Requirements of Nasdaq but also within the definition contained in a final rule of the SEC. Furthermore, the Board of Directors has determined that Messrs. Gildea, Minetti and O'Neill are "audit committee financial experts" within the definition contained in a final rule adopted by the SEC.

Compensation Committee Interlocks and Insider Participation

Messrs. Alliger, Minetti, O'Neill and Gildea are the members of the Compensation Committee (the "Compensation Committee"). No member of the Compensation Committee is an officer or employee, or former officer or employee, of Misonix, and no member of the Compensation Committee had any relationship with Misonix requiring disclosure under Item 404 of Regulation S-K. No interlocking relationship exists between the members of Misonix's Compensation Committee and the Board of Directors or compensation committee of any other company.

Director Independence

The Company is required to have a Board of Directors a majority of whom are “independent” as defined by the Nasdaq listing standards and to disclose those directors that the Board of Directors has determined to be independent. Based on such definition, the Board of Directors has determined that all directors other than Mr. McManus, who is an officer of the Company, are independent.

The Company is required to have an audit committee of at least three members composed solely of independent directors. The Board of Directors is required under the Nasdaq listing standards to affirmatively determine the independence of each director on the Audit Committee. The Board has determined that each member of the Audit Committee is “independent” not only under the Nasdaq listing standards but also within the definition contained in a final rule of the SEC. Furthermore, the Board of Directors has determined that Messrs. Minetti, O’Neill and Gildea are “audit committee financial experts” within the definition contained in a final rule adopted by the SEC.

Item 11. Executive Compensation.

Compensation Discussion and Analysis

Overview of Compensation Program and Philosophy

Our compensation program is intended to:

- Attract, motivate, retain and reward employees of outstanding ability;
- Link changes in employee compensation to individual and corporate performance;
- Align employees’ interests with those of the shareholders.

The ultimate objective of our compensation program is to increase shareholder value. We seek to achieve these objectives with a total compensation approach which takes into account a competitive base salary, bonus pay based on the annual performance of the Company and individual goals and stock option awards.

Base Salaries

Base salaries paid to executives are intended to attract and retain highly talented individuals. In setting base salaries, individual experience, individual performance, the Company’s performance and job responsibilities during the year are considered. Executive salaries are reconciled by Human Resources and evaluated against local companies of similar size and nature.

Annual Bonus Plan Compensation

The Compensation Committee of the Board of Directors approves annual performance-based compensation. The purpose of the annual bonus-based compensation is to motivate executive officers and key employees. Target bonuses, based upon recommendations from the Chief Executive Officer are evaluated and approved by the Compensation Committee for all employees other than the Chief Executive Officer. The bonus recommendations are derived from individual and Company performance but not based on a specific formula and is discretionary. The Chief Executive Officer’s bonus compensation is derived from the Board of Directors’ recommendation to the Compensation Committee based upon the Chief Executive Officer’s performance and Company performance but is not based on a specific formula and is discretionary.

Stock Option Awards

Stock option awards are intended to attract and retain highly talented executives, to provide an opportunity for significant compensation when overall Company performance is reflected in the stock price, and to help align executives' and shareholders' interests. Stock options are typically granted at the time of hire to key new employees and annually to a broad group of existing key employees, including executive officers.

Annual option grants to executive officers are made in the form of incentive stock options ("ISO's") to the fullest extent permitted under tax rules, with the balance granted in the form of nonqualified stock options. ISO's have potential income tax advantage for executives if the executive disposes of the acquired shares after satisfying certain holding periods. Tax laws provide that the aggregate grant at date of grant for market value of ISO's that become exercisable for any employee in any year may not exceed \$100,000.

Our current standard vesting schedule for all employees is 25% on the first anniversary of the date of grant, 50% on the second anniversary of the date of grant, 75% on the third anniversary of the date of grant and 100% on the fourth anniversary of the date of grant.

401 (k) Plan

Our Individual Deferred Tax and Savings Plan (the “401 (k) plan”) is a tax qualified retirement savings plan pursuant to which all of the Company’s U.S. employees may defer compensation under Section 401 (k) of the Internal Revenue Code of 1986, as amended (the “Code”). The Company contributes an amount equal to 25% of salary contributed under the 401 (k) plan by an eligible employee, up to the maximum allowed under the Code. We do not provide any supplemental retirement benefits to executive officers.

Change in Control benefits

Change in control benefits are intended to diminish the distinction that executives would face by virtue of the personal uncertainties created by a pending or threatened change in control and to assure that the Company will continue to have the executive’s full attention and services at all time. Our change in control benefits are designed to be competitive with similar benefits available at companies with which we compete for executives’ talent. These benefits, as one element of our total compensation program, help the Company attract, retain and motivate highly talented executives.

Mr. McManus’ employment agreement provides that after a change in control of the Company, he is entitled to a one-time additional compensation payment equal to two times his total compensation (annual salary plus bonuses) at the highest rate paid during his employment payable within 60 days of termination. Mr. Zaremba has an agreement for the payment of six months of annual base salary upon a change in control of the Company.

Tax deductibility of Executive Compensation

Section 162 (m) of the Code limits to \$1,000,000 per person the amount that we may deduct for compensation paid to any of our most highly compensated officers in any year. In fiscal 2008, there was no executive officer’s compensation that exceeded \$1,000,000.

Compensation Committee Report

The Compensation Committee has received and discussed the Compensation Discussion and Analysis section above with management and, based on such review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Report.

Howard Alliger
T. Guy Minetti
Thomas F. O’Neill
John W. Gildea

The following table sets forth information for the fiscal year ended June 30, 2008 concerning the compensation awarded to, earned by or paid to our named executive officers during fiscal 2008 for services rendered to the Company.

SUMMARY COMPENSATION TABLE FOR THE 2008 FISCAL YEAR

| Name and Principal Position | Fiscal Year Ended June 30, | Salary (\$) | Bonus (\$) | Options Awards (\$) | Total (\$) |
|--|-----------------------------------|--------------------|-------------------|----------------------------|-------------------|
| Michael A. McManus, Jr. | 2008 | 275,000 | 200,000 | - | 475,000 |
| President and Chief Executive Officer | 2007 | 275,000 | - | - | 275,000 |
| | 2006 | 275,000 | - | - | 275,000 |
| Richard Zaremba | 2008 | 189,303 | 24,000 | 23,430 | 236,733 |
| Senior Vice President, | 2007 | 183,790 | 23,000 | 23,640 | 230,430 |
| Chief Financial Officer, Secretary and Treasurer | 2006 | 178,437 | 28,000 | 45,680 | 252,117 |
| Dan Voic | 2008 | 143,789 | 22,000 | 23,430 | 189,219 |
| Vice President of | 2007 | 126,915 | 18,000 | 15,760 | 160,675 |
| Research and Development and Engineering | 2006 | 123,224 | 20,000 | 28,550 | 171,774 |
| Ronald Manna | 2008 | 114,683 | 7,000 | 11,715 | 133,398 |
| Vice President- New Product Development and Regulation Affairs | 2007 | 111,342 | 5,000 | 5,910 | 122,252 |
| | 2006 | 108,099 | 5,000 | 11,420 | 124,519 |
| Frank Napoli | 2008 | 125,341 | 6,000 | 9,372 | 140,713 |
| Vice President- Operations | 2007 | 121,690 | 7,000 | 7,880 | 136,570 |
| | 2006 | 118,146 | 7,000 | 7,200 | 132,846 |
| Michael Ryan* | 2008 | 152,677 | - | 43,500 | |