

MISONIX INC  
Form 10-Q  
February 07, 2013

**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

(Mark One)

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

**For the quarterly period ended December 31, 2012**

**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.)

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1938 New Highway, Farmingdale, NY 11735  
(Address of principal executive offices) (Zip Code)

(631) 694-9555

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

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

Class of Common Stock	Outstanding at February 7, 2013
Common Stock, \$.01 par value	7,049,986

**MISONIX, INC.**

**INDEX**

	<b>Page</b>
<b>Part I — FINANCIAL INFORMATION</b>	
Item 1. Financial Statements:	
Consolidated Balance Sheets as of December 31, 2012 (Unaudited) and June 30, 2012	3
Consolidated Statements of Operations for the Six months ended December 31, 2012 and 2011 (Unaudited)	4
Consolidated Statements of Operations for the Three months ended December 31, 2012 and 2011 (Unaudited)	5
Consolidated Statement of Stockholders' Equity for the Six months ended December 31, 2012 (Unaudited)	6
Consolidated Statements of Cash Flows for the Six months ended December 31, 2012 and 2011 (Unaudited)	7
Notes to Consolidated Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
Item 4. Controls and Procedures	23
<b>Part II — OTHER INFORMATION</b>	
Item 1A. Risk Factors	24
Item 6. Exhibits	24
Signatures	25
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

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

	December 31, 2012  (Unaudited)	June 30, 2012  (derived from audited financial statements)
Assets		
Current assets:		
Cash and cash equivalents	\$6,855,047	\$ 6,273,015
Accounts receivable, less allowance for doubtful accounts of \$184,641 and \$155,739, respectively	2,328,533	3,158,084
Inventories, net	4,372,582	4,380,841
Prepaid expenses and other current assets	195,533	306,691
Note receivable	-	198,117
Total current assets	13,751,695	14,316,748
Property, plant and equipment, net	778,572	891,822
Goodwill	1,701,094	1,701,094
Intangible and other assets	1,276,866	1,403,173
Total assets	\$17,508,227	\$ 18,312,837
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$1,270,734	\$ 1,507,695
Accrued expenses and other current liabilities	873,082	1,074,932
Total current liabilities	2,143,816	2,582,627
Deferred lease liability	23,403	22,996
Deferred income	95,041	117,147
Total liabilities	2,262,260	2,722,770

Commitments and contingencies

Stockholders' equity:

Common stock, \$.01 par value-shares authorized 20,000,000, 7,108,845 and 7,082,920 shares issued and 7,031,285 and 7,005,360 shares outstanding, respectively	71,088	70,829
Additional paid-in capital	26,397,527	26,132,951
Accumulated deficit	(10,811,655 )	(10,202,720 )
Treasury stock, at cost, 77,560 shares	(410,993 )	(410,993 )
Total stockholders' equity	15,245,967	15,590,067
Total liabilities and stockholders' equity	\$ 17,508,227	\$ 18,312,837

*See Accompanying Notes to Consolidated Financial Statements.*

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

	For the six months ended December 31,	
	2012	2011
Net sales	\$8,044,756	\$6,767,734
Cost of goods sold	3,470,864	2,734,968
Gross profit	4,573,892	4,032,766
Operating expenses:		
Selling expenses	3,004,149	2,374,297
General and administrative expenses	2,135,058	2,250,205
Research and development expenses	763,388	613,676
Total operating expenses	5,902,595	5,238,178
Loss from operations	(1,328,703)	(1,205,412)
Other income (expense):		
Interest income	38	158
Interest expense	-	(363 )
Royalty income and license fees	745,064	326,507
Royalty expense/fee recovery	(5,113 )	121,276
Other	(26,185 )	(20,479 )
Total other income	713,804	427,099
Loss from continuing operations before income taxes	(614,899 )	(778,313 )
Income tax expense/(benefit)	3,829	(202,273 )
Net loss from continuing operations	(618,728 )	(576,040 )
Discontinued operations:		
Income/(loss) from discontinued operations net of tax expense of \$0 and a tax benefit of \$130,517, respectively	9,793	(206,181 )
Gain from sale of discontinued operations net of tax expense of \$0 and \$532,268, respectively	-	918,358
Net income from discontinued operations	9,793	712,177
Net (loss)/income	\$ (608,935 )	\$ 136,137
Net loss per share from continuing operations - Basic	\$ (0.09 )	\$ (0.08 )
Net income per share from discontinued operations - Basic	0.00	0.10
Net (loss)/income per share - Basic	\$ (0.09 )	\$ 0.02

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Net loss per share from continuing operations - Diluted	\$ (0.09	) \$ (0.08	)
Net income per share from discontinued operations - Diluted	0.00	0.10	
Net (loss)/income per share - Diluted	\$ (0.09	) \$ 0.02	
Weighted average shares - Basic	7,012,734	7,001,370	
Weighted average shares - Diluted	7,012,734	7,001,370	

*See Accompanying Notes to Consolidated Financial Statements.*

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

	For the three months ended December 31,	
	2012	2011
Net sales	\$ 3,474,231	\$ 3,550,535
Cost of goods sold	1,626,965	1,281,561
Gross profit	1,847,266	2,268,974
Operating expenses:		
Selling expenses	1,545,585	1,194,045
General and administrative expenses	1,092,726	1,082,385
Research and development expenses	366,257	303,702
Total operating expenses	3,004,568	2,580,132
Loss from operations	(1,157,302 )	(311,158 )
Other income (expense):		
Interest income	25	139
Interest expense	-	(151 )
Royalty income and license fees	522,385	188,372
Royalty expense/fee recovery	(1,415 )	149,846
Other	(18,608 )	(6,335 )
Total other income	502,387	331,871
(Loss)/income from continuing operations before income taxes	(654,915 )	20,713
Income tax expense/(benefit)	2,329	(207,233 )
Net (loss)/income from continuing operations	(657,244 )	227,946
Discontinued operations:		
Income/(loss) from discontinued operations net of tax expense of \$0 and a tax benefit of \$130,517, respectively	3,475	(126,225 )
Gain from sale of discontinued operations net of tax expense of \$0 and \$532,268, respectively	-	918,358
Net income from discontinued operations	3,475	792,133
Net (loss)/income	\$ (653,769 )	\$ 1,020,079
Net (loss)/income per share from continuing operations - Basic	\$ (0.09 )	\$ 0.03
Net income per share from discontinued operations - Basic	0.00	0.11
Net (loss)/income per share - Basic	\$ (0.09 )	\$ 0.15



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Net (loss)/income per share from continuing operations - Diluted	\$ (0.09	) \$ 0.03
Net income per share from discontinued operations - Diluted	0.00	0.11
Net (loss)/income per share - Diluted	\$ (0.09	) \$ 0.15
Weighted average shares - Basic	7,020,107	7,001,370
Weighted average shares - Diluted	7,020,107	7,001,370

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC. and Subsidiaries****Consolidated Statement of Stockholders' Equity****(Unaudited)****For the six months ended December 31, 2012**

	Common Stock, \$.01 Par Value		Treasury Stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Number of shares	Amount	Number of shares	Amount			
Balance, June 30, 2012	7,082,920	\$70,829	(77,560)	\$(410,993)	\$26,132,951	\$(10,202,720)	\$15,590,067
Net loss/comprehensive loss	-	-	-	-	-	(608,935 )	(608,935 )
Proceeds from exercise of stock options	25,925	259	-	-	43,597	-	43,856
Stock-based compensation	-	-	-	-	220,979	-	220,979
Balance, December 31, 2012	7,108,845	\$71,088	(77,560)	\$(410,993)	\$26,397,527	\$(10,811,655)	\$15,245,967

*See Accompanying Notes to Consolidated Financial Statements.*

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

	For the six months ended December 31,	
	2012	2011
Operating activities		
Net loss from continuing operations	\$ (618,728 )	\$ (576,040 )
Adjustments to reconcile net loss to net cash provided by/(used) in continuing operating activities:		
Depreciation and amortization and other non-cash items	365,092	341,425
Bad debt expense (recovery)	28,902	25,000
Stock-based compensation	220,979	169,618
Deferred income	(22,106 )	(65,282 )
Deferred lease liability	407	4,476
Changes in operating assets and liabilities:		
Accounts receivable	800,649	184,988
Inventories	206,376	(218,942 )
Prepaid expenses and other assets	163,306	327,523
Accounts payable and accrued expenses	(438,811 )	(878,347 )
Net cash provided by/(used) in operating activities	706,066	(685,581 )
Investing activities		
Acquisition of property, plant and equipment	(134,908 )	(285,053 )
Payments for assets acquisition	-	(259,760 )
Additional patents	(42,775 )	(42,119 )
Net cash used in investing activities	(177,683 )	(586,932 )
Financing activities		
Principal payments on capital lease obligations	-	(7,669 )
Proceeds from exercise of stock options	43,856	-
Net cash provided by/(used) in financing activities	43,856	(7,669 )
Cash flows from discontinued operations		
Net cash provided by/(used) in operating activities	9,793	(379,110 )
Net cash provided by investing activities	-	1,474,816
Net cash provided by discontinued operations	9,793	1,095,706

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Net increase/(decrease) in cash and cash equivalents	582,032	(184,476 )
Cash and cash equivalents at beginning of period	6,273,015	6,881,093
Cash and cash equivalents at end of period	\$6,855,047	\$6,696,617

Supplemental disclosure of cash flow information:

Cash paid for:

Interest	\$-	\$363
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Income taxes	\$11,449	\$10,809
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*See Accompanying Notes to Consolidated Financial Statements.*

## **MISONIX, INC. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

(Unaudited)

#### **1. Basis of Presentation**

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2012 (“2012 Annual Report”). A summary of the Company’s significant accounting policies is identified in Note 1 of the notes to the consolidated financial statements included in the Company’s 2012 Annual Report. There have been no changes in the Company’s significant accounting policies subsequent to June 30, 2012.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X pursuant to the requirements of the U.S. Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

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

#### **Organization and Business**

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

The Company’s revenues are generated from various regions throughout the world. Sales by the Company outside the United States are made primarily through distributors. Sales made in the United State are made primarily through

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representative agents. The following is an analysis of net sales from continuing operations by geographic region:

	Three months ended December 31,			Six months ended December 31,	
	2012	2011		2012	2011
United States	\$1,635,550	\$1,872,338	United States	\$4,085,160	\$3,750,051
Australia	141,774	62,641	Australia	281,674	80,826
Europe	958,388	645,914	Europe	1,720,299	1,474,003
Asia	361,556	445,080	Asia	783,783	483,686
Canada and Mexico	29,922	102,801	Canada and Mexico	255,982	290,942
South America	108,462	204,944	South America	406,388	279,739
South Africa	105,584	81,330	South Africa	312,267	141,715
Middle East	132,995	135,487	Middle East	199,203	266,772
	\$3,474,231	\$3,550,535		\$8,044,756	\$6,767,734

**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

**Discontinued Operations**

***Laboratory and Forensic Safety Products Business***

On October 19, 2011, Misonix sold its Laboratory and Forensic Safety Products business, which comprised substantially all of the Laboratory and Scientific Products segment, to Mystaire, Inc. (“Mystaire”) for \$1.5 million in cash plus a potential additional payment of up to an aggregate \$500,000 based upon 30% of net sales in excess of \$2.0 million for each of the three years following the closing (the “earn-out”). The Laboratory and Forensic Safety Products business manufactured and marketed ductless fume, laminar airflow and polymerase chain reaction workstations both domestically and internationally with revenues for fiscal 2011 of approximately \$2.1 million.

In accordance with the Asset Purchase Agreement with Mystaire, Misonix retained, among other items, the existing accounts receivable, inventory, accounts payable and accrued expenses of the Laboratory and Forensic Safety Products business. After considering the proceeds received of \$1,500,000 in cash, professional fees of \$25,000 in connection with the sale and the net book value of the assets sold of \$24,000, which was comprised primarily of property and equipment, Misonix reported a gain on sale of \$1,451,000 and recorded income taxes of \$242,000 on the gain during the fiscal year ended June 30, 2012. The earn-out will not be factored into the gain on sale until it is earned by Misonix.

In accordance with the terms of the Transition and Manufacturing Services Agreement with Mystaire, which was entered into as part of the sale, Misonix continued for a period of six weeks to manufacture and deliver products for orders received prior to the closing date as well as to provide product to Mystaire as transition inventory, which transition period was completed on November 30, 2011.

## **MISONIX, INC. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

(Unaudited)

The results of operations of the Laboratory and Forensic Safety Products business have been presented as discontinued operations for all periods presented as Misonix does not have any significant cash flow or continuing involvement in this business. Following the sale of the Laboratory and Forensic Safety Products business, the Company operates in one reportable segment, Medical Devices.

#### ***Labcaire Systems***

On August 4, 2009, the Company sold its Labcaire Systems, Ltd. (“Labcaire”) subsidiary to PuriCore International Limited (“PuriCore Limited”) for a total purchase price of up to \$5.6 million. The Company received \$3.6 million at closing and a promissory note in the principal amount of \$1 million. The Company was also to receive a commission paid on sales for the period commencing on the date of closing and ending on December 31, 2013 of 8% of the pass through Automated Endoscope Reprocessing (“AER”) and Drying Cabinet products, and 5% of license fees from any chemical licenses marketed by Labcaire directly associated with sale of AERs, specifically for the disinfection of the endoscope. The aggregate commission payable to the Company was also to be subject to a maximum payment of \$1,000,000.

In January 2011, PuriCore Limited initiated a lawsuit against the Company in the High Court of Justice, Queens Bench Division, Commercial Court, Royal Courts of Justice, London, England (Claim No. 2011-42) (the “Lawsuit”). In the Lawsuit, PuriCore Limited claimed damages from the Company in respect of breach of warranties contained in the Stock Purchase Agreement, dated August 4, 2009 (the “SPA”), pursuant to which the Company sold Labcaire to PuriCore Limited. PuriCore Limited claimed damages of £2,167,000 or approximately \$3,600,000, plus interest and its legal costs. The Company denied the allegations contained in the Lawsuit.

On July 19, 2011, PuriCore Limited and the Company reached an agreement to settle the Lawsuit (the “Settlement”). The Settlement provides that the Company (i) forgive in full PuriCore Limited and PuriCore plc’s obligation under the SPA to pay up to \$1,000,000 of the previously unrecorded, contingent commissions (as described above); (ii) pay PuriCore, Inc. (“PuriCore”), an affiliate of PuriCore Limited, \$650,000 towards PuriCore Limited’s legal costs which had been accrued for as of June 30, 2011 and (iii) enter into a Product License and Distribution Agreement, dated as of July 19, 2011, with PuriCore (the “Distribution Agreement”).



Pursuant to the Distribution Agreement, the Company has been granted the right to distribute PuriCore's Vash® solution products in the United States, on a private label basis, as an antibacterial, microbial irrigating solution for the treatment of human wound care in conjunction with therapeutic ultrasonic procedures (the "Field"). PuriCore has agreed, subject to modification, not to sell the products that are the subject of the Distribution Agreement (the "Licensed Products") to any other therapeutic ultrasound company for distribution in the Field in the United States ("Exclusivity"). The Company has agreed not to sell or distribute in the United States in the Field any irrigating solution that has anti-microbial properties other than the Licensed Products so long as the Company has Exclusivity.

The Distribution Agreement is for a three (3) year term with automatic renewals for successive two (2) year periods; provided that the Company and PuriCore have agreed upon sales volume targets for each renewal period (such volume targets not to increase by more than ten (10%) percent year over year unless otherwise agreed) and provided that the cost terms shall be no less favorable than the twelve (12) months leading up to the start of such renewal period. In no event will the Distribution Agreement survive beyond the expiration or invalidation of all of PuriCore's patents.

During the initial three year term of the Distribution Agreement, the Company is obligated to either purchase or pay a minimum of \$2,000,000 in gross margin value to PuriCore for the Licensed Products (the "Minimum Payment"). The Minimum Payment is subject to downward adjustment and elimination in the event that (i) PuriCore chooses to eliminate Exclusivity, (ii) the Company's right to manufacture the Licensed Products under certain conditions has been triggered but the Company is unable to manufacture the Licensed Products or to have the Licensed Products manufactured for it by third parties or (iii) the U.S. Food and Drug Administration has made a final determination that prohibits the sale of the licensed products for use in the Field. As of December 31, 2012, Misonix incurred approximately \$683,125 towards the minimum payment, leaving a minimum payment balance of \$1,316,875. At the start of fiscal 2013, the value of the note was \$298,117. During fiscal 2013, Misonix purchased sufficient Licensed Products from Puricore to satisfy the remaining balance due under the note.

The Company has the right to manufacture the Licensed Products if PuriCore is unable to meet certain performance standards and will pay PuriCore a royalty after the \$2,000,000 in gross margin value requirement has been satisfied if the Company is then manufacturing the Licensed Products.

During a renewal period, PuriCore may terminate the Distribution Agreement (i) if the Company fails to purchase the agreed upon volume target for such renewal period and does not cure such failure in accordance with the Distribution Agreement or (ii) upon twelve (12) months' notice.

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

(Unaudited)

***High Intensity Focused Ultrasound Technology***

In consideration for the May 2010 sale of its rights to the high intensity focused ultrasound technology to USHIFU LLC ("USHIFU"), Misonix will receive up to approximately \$5.8 million, paid out of an earn-out of 7% of gross revenues received by USHIFU related to the business being sold up to the time the Company has received the first \$3 million and thereafter 5% of the gross revenues up to the \$5.8 million. Commencing 90 days after each December 31<sup>st</sup> and beginning December 31, 2011 the payments will be the greater of (a) \$250,000 or (b) 7% of gross revenues received up to the time the Company has received the first \$3 million and thereafter 5% of gross revenues up to the \$5.8 million. Total payments through December 31, 2012 were \$254,788. There were no payments received during the fiscal quarter ended December 31, 2012.

***Results of Discontinued Operations***

	For the three months ended December 31,		For the six months ended December 31,	
	2012	2011	2012	2011
Revenues	\$4,975	\$905,245	\$9,950	\$1,427,202
Income/(loss) from discontinued operations, before tax	\$3,475	\$(256,742 )	\$9,793	\$(336,698 )
Gain on sale of discontinued operations	-	1,450,626	-	1,450,626
Income tax expense	-	(401,751 )	-	(401,751 )
Net income from discontinued operations net of tax	\$3,475	\$792,133	\$9,793	\$712,177

**Accounts Receivable**

Accounts receivable, principally trade, are generally due within 30 to 90 days and are stated at amounts due from customers, net of an allowance for doubtful accounts. The Company performs ongoing credit evaluations and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. The Company continuously monitors aging reports, collections and payments from customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within

expectations and the provisions established, the Company cannot guarantee that the same credit loss rates will be experienced in the future. The Company writes off accounts receivable when they become uncollectible.

## **Reclassifications**

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

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

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

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

(Unaudited)

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

	For the six months ended December 31,		For the three months ended December 31,	
	2012	2011	2012	2011
Basic shares	7,012,734	7,001,370	7,020,107	7,001,370
Dilutive effect of stock options	-	-	-	-
Diluted shares	7,012,734	7,001,370	7,020,107	7,001,370

Excluded from the calculations of diluted EPS are options to purchase 1,584,030 shares of common stock for the three months ended December 31, 2011. The excluded options are for any shares for which the average stock price for the quarter or year to date is less than the exercise price of the outstanding options for the period in which the Company has income.

Diluted EPS for the six months and three months ended December 31, 2012 and for the six months ended December 31, 2011 presented is the same as basic EPS as the inclusion of the effect of common share equivalents then outstanding would be anti-dilutive. For this reason, excluded from the calculation of diluted EPS are outstanding options to purchase 1,922,905 and 1,824,680 shares of common stock for the six and three months ended December 31, 2012 and for the six months ended December 31, 2011, respectively.

**3. Comprehensive Income/(Loss)**

Total comprehensive loss, which includes results of discontinued operations, was \$608,935 and \$653,769 for six months and three months ended December 31, 2012 and income of \$136,137 and \$1,020,079 for the six and three months ended December 31, 2011, respectively. There are no components of comprehensive income/(loss) other than net income/(loss) for all periods presented.



## **MISONIX, INC. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

(Unaudited)

#### **4. Stock-Based Compensation**

Stock options are granted with exercise prices not less than the fair market value of our common stock at the time of the grant, with an exercise term (as determined by the committee administering the applicable option plan (the “Committee”)) not to exceed 10 years. The Committee determines the vesting period for the Company’s stock options. Generally, such stock options have vesting periods of immediate to four years. Certain option awards provide for accelerated vesting upon meeting specific retirement, death or disability criteria, and upon a change in control. During the six month periods ended December 31, 2012 and 2011, the Company granted options to purchase 342,500 and 233,750 shares of the Company’s common stock, respectively.

In December 2012, the shareholders approved the 2012 Employee Stock Option Plan in the amount of 500,000 shares. This plan expires in 10 years and to date no shares have been issued from the plan. In addition, the shareholders approved the 2012 Non-Employee Director Stock Option Plan in the amount of 200,000 shares. This plan expires in 10 years and to date no shares have been issued from the plan.

Stock-based compensation expense for the six month periods ended December 31, 2012 and 2011 was approximately \$221,000 and \$170,000, respectively. Compensation expense is recognized in the general and administrative expenses line item of the Company’s statements of operations on a straight-line basis over the vesting periods. As of December 31, 2012, there was approximately \$1,474,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 3.2 years.

Cash in the amount of \$43,856 was received from the exercise of stock options for the six month period ending December 31, 2012. No cash was received from the exercise of stock options for the six month period ending December 31, 2011.

The fair values of the options granted during the periods ended December 31, 2012 and 2011 were estimated on the date of the grant using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions during the respective periods:

	For the six months ended December 31,			
	2012		2011	
Risk-free interest rate	2.5	%	3.4	%
Expected option life in years	6.5		6.5	
Expected stock price volatility	75.1	%	75.4	%
Expected dividend yield	0.0	%	0.0	%
Weighted-average fair value of options granted	\$ 2.94		\$ 1.75	

The expected life was based on historical exercises and terminations. The expected volatility for the expected life of the options is determined using historical price changes of the Company's stock over a period equal to that of the expected life of the options. The risk free rate is based upon the U.S. Treasury yield in effect at the time of the grant. The expected dividend yield is 0% as the Company has historically not declared dividends and does not expect to declare any in the future.

Changes in outstanding stock options during the six months ended December 31, 2012 were as follows:

	Options		Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (a)
	Number of Shares	Weighted Average Exercise Price (\$)		
Outstanding as of June 30, 2012	1,820,930	3.60		
Granted	342,500	3.73		
Exercised	25,925	1.70		
Forfeited	(12,900 )	2.04		
Expired	(201,700 )	5.10		
Outstanding as of December 31, 2012	1,922,905	3.50	5.9	\$8,759,458
Exercisable and vested at December 31, 2012	1,211,230	3.86	4.6	\$5,090,552
Available for grant at December 31, 2012	801,850			

Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying stock, (a) based on the respective market prices at December 31, 2012 or if exercised, the exercise dates, exceeds the exercise prices of the respective options.

**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

**5. Income Taxes**

For the three months ended December 31, 2012, the Company recorded an income tax expense of \$2,329, which primarily consisted of state and minimum income taxes. For the six months ended December 31, 2012, the Company recorded an income tax expense of \$3,829, which primarily consisted of state and minimum income taxes.

The Company's effective tax rate on continuing operations for the six months ended December 31, 2012 and December 31, 2011 was (1%) and 26%, respectively. For the six months ended December 31, 2012 and December 31, 2011, the effective rate on continuing operations varied from the U.S. federal statutory rate primarily due to permanent book tax differences, state taxes, change in the valuation allowance and the impact of the intra-period tax allocation between continuing and discontinued operations.

The Company established a valuation against the deferred tax asset in prior years when management concluded that it is more likely than not that the deferred tax asset may not be fully realized. Management's deferred tax asset assessment is unchanged as of December 31, 2012.

As of December 31, 2012 and June 30, 2012, the Company has no material unrecognized tax benefits and accrued interest and penalties.

**6. Inventories**

Inventories are summarized as follows:

December 31, 2012	June 30, 2012
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Raw material	\$2,041,140	\$2,172,536
Work-in-process	1,050,640	875,000
Finished goods	1,889,336	1,795,529
	4,981,116	4,843,065
Less valuation reserve	608,534	462,224
	\$4,372,582	\$4,380,841

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

	December 31, 2012	June 30, 2012
Accrued payroll and vacation	\$ 398,112	\$ 468,505