

MISONIX INC
Form 10-Q
November 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 September 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 1-10986

MISONIX, INC.

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

11-2148932
(I.R.S. Employer
Identification No.)

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

11735
(Zip Code)

(631) 694-9555

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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):

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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 November 7, 2013 |
|-------------------------------|------------------------------------|
| Common Stock, \$.01 par value | 7,197,036 |

MISONIX, INC.

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

| | September 30, 2013 (unaudited) | June 30, 2013 (derived from audited financial statements) |
|--|--|--|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,653,513 | \$ 5,806,437 |
| Accounts receivable, less allowance for doubtful accounts of \$229,641 and \$214,641, respectively | 2,799,336 | 2,974,641 |
| Inventories, net | 4,157,193 | 4,034,477 |
| Prepaid expenses and other current assets | 294,079 | 387,371 |
| Total current assets | 11,904,121 | 13,202,926 |
| Property, plant and equipment, net | 1,185,038 | 1,326,586 |
| Goodwill | 1,701,094 | 1,701,094 |
| Intangible and other assets | 1,073,996 | 1,129,321 |
| Total assets | \$ 15,864,249 | \$ 17,359,927 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,601,445 | \$ 2,208,999 |
| Accrued expenses and other current liabilities | 1,024,844 | 1,276,963 |
| Total current liabilities | 2,626,289 | 3,485,962 |
| Deferred lease liability | 22,012 | 23,811 |
| Deferred income | 61,881 | 72,934 |
| Total liabilities | 2,710,182 | 3,582,707 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity: | | |
| Common stock, \$.01 par value-shares authorized 20,000,000, 7,267,096 and 7,233,884 shares issued and 7,189,536 and 7,156,324 shares outstanding, respectively | 72,671 | 72,339 |
| Additional paid-in capital | 27,250,076 | 26,989,559 |
| Accumulated deficit | (13,757,687) | (12,873,685) |
| Treasury stock, at cost, 77,560 shares | (410,993) | (410,993) |
| Total stockholders' equity | 13,154,067 | 13,777,220 |
| Total liabilities and stockholders' equity | \$ 15,864,249 | \$ 17,359,927 |

See Accompanying Notes to Consolidated Financial Statements.

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

| | For the three months ended September 30, | |
|---|---|--------------|
| | 2013 | 2012 |
| Net sales | \$ 3,075,584 | \$ 4,570,525 |
| Cost of goods sold | 1,345,330 | 1,843,899 |
| Gross profit | 1,730,254 | 2,726,626 |
| Operating expenses: | | |
| Selling expenses | 1,828,830 | 1,458,564 |
| General and administrative expenses | 1,221,315 | 1,042,332 |
| Research and development expenses | 472,888 | 397,131 |
| Total operating expenses | 3,523,033 | 2,898,027 |
| Loss from operations | (1,792,779) | (171,401) |
| Other income (expense): | | |
| Interest income | 19 | 13 |
| Royalty income and license fees | 912,794 | 222,679 |
| Royalty expense | - | (3,698) |
| Other | (6,261) | (7,577) |
| Total other income | 906,552 | 211,417 |
| (Loss)/income from continuing operations before income taxes | (886,227) | 40,016 |
| Income tax expense | 2,750 | 1,500 |
| Net (loss)/income from continuing operations | (888,977) | 38,516 |
| Discontinued operations: | | |
| Income from discontinued operations net of tax expense of \$0 and \$0, respectively | 4,975 | 6,318 |
| Net income from discontinued operations | 4,975 | 6,318 |
| Net (loss)/income | \$ (884,002) | \$ 44,834 |
| Net (loss)/income per share from continuing operations - Basic | \$ (0.12) | \$ 0.01 |
| Net income per share from discontinued operations - Basic | 0.00 | 0.00 |
| Net (loss)/income per share - Basic | \$ (0.12) | \$ 0.01 |
| Net (loss)/income per share from continuing operations - Diluted | \$ (0.12) | \$ 0.01 |
| Net income per share from discontinued operations - Diluted | 0.00 | 0.00 |
| Net (loss)/income per share - Diluted | \$ (0.12) | \$ 0.01 |
| Weighted average shares - Basic | 7,182,866 | 7,005,360 |
| Weighted average shares - Diluted | 7,182,866 | 7,297,690 |

See Accompanying Notes to Consolidated Financial Statements.

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

For the three months ended September 30, 2013

| | Common Stock, \$.01 Par Value | | Treasury Stock | | Additional | Accumulated | Total |
|---|----------------------------------|-----------|---------------------|--------------|--------------------|-----------------|-------------------------|
| | Number of shares | Amount | Number of shares | Amount | paid-in capital | deficit | stockholders' equity |
| Balance, June 30, 2013 | 7,233,884 | \$ 72,339 | (77,560) | \$ (410,993) | \$ 26,989,559 | \$ (12,873,685) | \$ 13,777,220 |
| Net loss/comprehensive loss | - | - | - | - | - | (884,002) | (884,002) |
| Proceeds from exercise of stock options | 33,212 | 332 | - | - | 116,573 | - | 116,905 |
| Stock-based compensation | - | - | - | - | 143,944 | - | 143,944 |
| Balance, September 30, 2013 | 7,267,096 | \$ 72,671 | (77,560) | \$ (410,993) | \$ 27,250,076 | \$ (13,757,687) | \$ 13,154,067 |

See Accompanying Notes to Consolidated Financial Statements.

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

| | For the three months ended September 30, | |
|--|---|--------------|
| | 2013 | 2012 |
| Operating activities | | |
| Net (loss)/income from continuing operations | \$ (888,977) | \$ 38,516 |
| Adjustments to reconcile net loss to net cash used in continuing operating activities: | | |
| Depreciation and amortization and other non-cash items | 231,271 | 182,328 |
| Bad debt expense | 15,000 | 13,902 |
| Stock-based compensation | 143,944 | 98,945 |
| Deferred income | (15,051) | (11,053) |
| Deferred lease liability | (1,799) | 203 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 160,305 | 532,011 |
| Inventories | (146,590) | 292,709 |
| Prepaid expenses and other assets | 117,120 | 102,749 |
| Accounts payable, accrued expenses and other non-cash items | (855,675) | (807,842) |
| Net cash (used in)/provided by operating activities | (1,240,452) | 442,468 |
| Investing activities | | |
| Acquisition of property, plant and equipment | (5,925) | (41,629) |
| Additional patents | (28,427) | (17,505) |
| Net cash used in investing activities | (34,352) | (59,134) |
| Financing activities | | |
| Proceeds from exercise of stock options | 116,905 | - |
| Net cash provided by financing activities | 116,905 | - |
| Cash flows from discontinued operations | | |
| Net cash provided by operating activities | 4,975 | 6,318 |
| Net cash provided by discontinued operations | 4,975 | 6,318 |
| Net (decrease)/increase in cash and cash equivalents | (1,152,924) | 389,652 |
| Cash and cash equivalents at beginning of period | 5,806,437 | 6,273,015 |
| Cash and cash equivalents at end of period | \$ 4,653,513 | \$ 6,662,667 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Income taxes | \$ 856 | \$ 5,935 |

See Accompanying Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

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

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

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

Organization and Business

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

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

| | Three months ended September 30, | |
|-------------------|----------------------------------|--------------|
| | 2013 | 2012 |
| United States | \$ 1,581,270 | \$ 2,449,610 |
| Australia | 43,340 | 139,900 |
| Europe | 383,590 | 761,911 |
| Asia | 466,267 | 422,227 |
| Canada and Mexico | 84,705 | 226,060 |
| South America | 275,621 | 297,926 |
| South Africa | 93,576 | 206,683 |
| Middle East | 147,215 | 66,208 |
| | \$ 3,075,584 | \$ 4,570,525 |

Discontinued Operations

Laboratory and Forensic Safety Products Business

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

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

High Intensity Focused Ultrasound Technology

In consideration for the May 2010 sale of 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 31st and beginning December 31, 2011 the payments will be the greater of (a) \$250,000 or (b) 7% of gross revenues received up to the time the Company has received the first \$3 million and thereafter 5% of gross revenues up to the \$5.8 million. Total payments through September 30, 2013 were \$504,788.

Results of Discontinued Operations

| | For the three months ended September 30, | |
|---|---|----------|
| | 2013 | 2012 |
| Revenues | \$ 4,975 | \$ 4,975 |
| Income from discontinued operations, before tax | \$ 4,975 | \$ 6,318 |
| Income tax expense | - | - |
| Net income from discontinued operations, net of tax | \$ 4,975 | \$ 6,318 |

Accounts Receivable

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

Reclassifications

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

2. Income (Loss) Per Share of Common Stock

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

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 three months ended September 30, | |
|----------------------------------|---|-----------|
| | 2013 | 2012 |
| Basic shares | 7,182,866 | 7,005,360 |
| Dilutive effect of stock options | - | 292,330 |
| Diluted shares | 7,182,866 | 7,297,690 |

Excluded from the calculations of diluted EPS are options to purchase 690,780 shares of common stock for the three months ended September 30, 2012. The excluded shares are any share in which the average stock price for the quarter or year to-date is less than the exercise price of the outstanding options in the period in which the Company has net income.

Diluted EPS for the three months ended September 30, 2013 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 1,898,079 shares of common stock for the three months ended September 30, 2013.

3. Comprehensive (Loss)/Income

Total comprehensive(loss)/income, which includes results of discontinued operations, was (\$884,002) and \$44,834 for three months ended September 30, 2013 and 2012, respectively. There are no components of comprehensive (loss)/income other than net (loss)/income for all periods presented.

4. Stock-Based Compensation

Stock options are granted with exercise prices not less than the fair market value of our common stock at the time of the grant, with an exercise term (as determined by the committee administering the applicable option plan (the "Committee")) not to exceed 10 years. The Committee determines the vesting period for the Company's stock options. Generally, such stock options have vesting periods of immediate to four years. Certain option awards provide for accelerated vesting upon meeting specific retirement, death or disability criteria and upon a change in control. During the three month periods ended September 30, 2013 and 2012, the Company granted options to purchase 249,000 and 261,200 shares of the Company's common stock, respectively.

Stock-based compensation expense for the three month periods ended September 30, 2013 and 2012 was approximately \$144,000 and \$99,000, respectively. Compensation expense is recognized in the general and administrative expenses line item of the Company's consolidated statements of operations on a straight-line basis over the vesting periods. As of September 30, 2013, there was approximately \$1,975,000 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 \$116,905 was received from the exercise of stock options for the three month period ended September 30, 2013.

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

The fair values of the options granted during the periods ended September 30, 2013 and 2012 were estimated on the date of the grant using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions during the respective periods:

| | For the three months ended September 30, 2013 | | 2012 | |
|---|---|---|---------|---|
| Risk-free interest rate | 3.3 | % | 2.5 | % |
| Expected option life in years | 6.5 | | 6.5 | |
| Expected stock price volatility | 76.1 | % | 74.7 | % |
| Expected dividend yield | 0.0 | % | 0.0 | % |
| Weighted-average fair value of options granted \$ | 3.76 | | \$ 2.33 | |

The expected option term is based upon the number of years the Company estimates the option will be outstanding 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 three months ended September 30, 2013 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, 2013 | 1,729,991 | 3.65 | | |
| Granted | 249,000 | 4.68 | | |
| Exercised | (33,212) | 3.52 | | |
| Forfeited | (500) | 2.96 | | |
| Expired | (47,200) | 4.70 | | |
| Outstanding as of September 30, 2013 | 1,898,079 | 3.76 | 5.7 | \$ 2,083,029 |
| Exercisable and vested at September 30, 2013 | 1,203,730 | 3.72 | 4.3 | \$ 1,429,851 |
| Available for grant at September 30, 2013 | 606,225 | | | |

- (a) Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying stock, based on the respective market prices at September 30, 2013 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 September 30, 2013, the Company recorded an income tax expense in continuing operations of \$2,750.

For the three months ended September 30, 2013 and 2012, the effective rate on continuing operations varied from the U.S. federal statutory rate primarily due to permanent book tax differences, state taxes and a change in the valuation allowance.

The Company established a valuation against the deferred tax asset in prior years when management concluded that it is more likely than not that the deferred tax asset may not be fully realized. Management's deferred tax asset assessment is unchanged as of September 30, 2013.

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

6. Inventories

Inventories are summarized as follows:

| | September 30, 2013 | June 30, 2013 |
|------------------------|-----------------------|------------------|
| Raw material | \$ 2,400,768 | \$ 2,641,982 |
| Work-in-process | 321,038 | 394,629 |
| Finished goods | 2,867,185 | 2,358,943 |
| | 5,588,991 | 5,395,554 |
| Less valuation reserve | 1,431,798 | 1,361,077 |
| | \$ 4,157,193 | \$ 4,034,477 |

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

| | September 30, 2013 | June 30, 2013 |
|-------------------------------------|-----------------------|------------------|
| Accrued payroll and vacation | \$ 415,053 | \$ 456,095 |
| Accrued bonuses | 50,000 | 225,000 |
| Accrued commissions | 209,000 | 200,678 |
| Accrued professional and legal fees | 76,202 | 70,450 |
| Deferred income | 142,892 | 146,038 |
| Other | 131,697 | 178,702 |
| | \$ 1,024,844 | \$ 1,276,963 |

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

8. Commitments and Contingencies

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

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

The Distribution Agreement was for a three (3) year term with automatic renewals for successive two (2) year periods; provided that the Company and PuriCore had 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 would have been no less favorable than the twelve (12) months leading up to the start of such renewal period. In no event would the Distribution Agreement have survived beyond the expiration or invalidation of all of PuriCore's patents.

During the initial three year term of the Distribution Agreement, the Company was 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 was subject to downward adjustment and elimination in the event that (i) PuriCore chose to eliminate Exclusivity, (ii) the Company's right to manufacture the Licensed Products under certain conditions had been triggered but the Company was 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 had made a final determination that prohibited the sale of the Licensed Products for use in the Field.

During our fiscal fourth quarter 2013, the Company sent a notice to terminate the Distribution Agreement due to management's belief that the products subject to the Distribution Agreement were non-conforming. Puricore disputed the Company's ability to terminate the Distribution Agreement. On October 11, 2013, the Company and Puricore mutually terminated the Distribution Agreement and signed a Settlement Agreement resolving all issues without the payment of any monies by either party. A reversal of the previously accrued and unpaid contractual minimum gross profit requirement in the amount of \$439,508 will be made in the second quarter of fiscal 2014 as a result of the Settlement Agreement.

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

9. Fair Value of Financial Instruments

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

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

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

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

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at September 30, 2013 and June 30, 2013:

| September 30, 2013 | Carrying Amount | Fair Value |
|---------------------------|-----------------|--------------|
| Cash and cash equivalents | \$ 4,653,513 | \$ 4,653,513 |
| Trade accounts receivable | 2,799,336 | 2,799,336 |
| Trade accounts payable | 1,601,445 | 1,601,445 |
| June 30, 2013 | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$ 5,806,437 | \$ 5,806,437 |
| Trade accounts receivable | 2,974,641 | 2,974,641 |
| Trade accounts payable | 2,208,999 | 2,208,999 |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

Trade Accounts Receivable

The carrying amount of trade receivables reflects net recovery value and approximates fair value because of their short outstanding terms.

Trade Accounts Payable

The carrying amount of trade payables approximates fair value because of their short outstanding terms.

Non-financial assets and liabilities

Certain non-financial assets and liabilities, principally goodwill, are measured at fair value on a non-recurring basis; that is the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when evidence of impairment exists. At September 30, 2013, no fair value adjustments or material fair value measurements were required for non-financial assets or liabilities.

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

10. Goodwill and Intangible Assets

Goodwill is not amortized. We review goodwill for impairment annually and whenever events or changes indicate that the carrying value of an asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of significant assets or product lines. Application of these impairment tests requires significant judgments, including estimation of cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur and determination of our weighted-average cost of capital. We primarily use a discounted cash flow model in determining fair value, which consists of level three inputs. Changes in the projected cash flows and discount rate estimates and assumptions underlying the valuation of goodwill could materially affect the determination of fair value at acquisition or during subsequent periods when tested for impairment. The Company determined that there were no indicators that the recorded goodwill was impaired as of September 30, 2013 which required further testing.

The cost of acquiring or processing patents is capitalized. This amount is being amortized using the straight-line method over the estimated useful lives of the underlying assets, which is approximately 17 years. Net patents reported in intangible and other assets totaled \$577,326 and \$568,823 at September 30, 2013 and June 30, 2013, respectively. Accumulated amortization totaled \$574,847 and \$554,923 at September 30, 2013 and June 30, 2013, respectively. Amortization expense for the three month periods ended September 30, 2013 and 2012 was approximately \$19,000 and \$18,000, respectively.

Net customer relationships reported in intangible and other assets totaled \$320,000 and \$360,000 at September 30, 2013 and June 30, 2013, respectively. Accumulated amortization amounted to \$480,000 at September 30, 2013 and \$440,000 at June 30, 2013, respectively. Amortization expense for the three month periods ended September 30, 2013 and 2012 was \$40,000. Customer relationships are amortized on a straight-line basis over a five year period.

The following is a schedule of estimated future amortization expense as of September 30, 2013:

| | Patents | Customer Relationships |
|------------|------------|---------------------------|
| 2014 | \$ 58,391 | \$ 120,000 |
| 2015 | 72,883 | 160,000 |
| 2016 | 69,821 | 40,000 |
| 2017 | 67,637 | - |
| 2018 | 67,211 | - |
| Thereafter | 241,383 | - |
| | \$ 577,326 | \$ 320,000 |

11. Recent Accounting Pronouncements

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

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

12. Related Party Transactions

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

Set forth below is a table showing the Company's net sales and accounts receivable for the year ended September 30, 2013 and 2012 with these distributors:

| | | | |
|--|----------|-----------|------------|
| For the three months ended September 30, | | | |
| Applied Bio Surgical | 2013 | | 2012 |
| Sales | \$ | 93,576 | \$ 206,683 |
| Accounts Receivable | \$ | 113,421 | \$ 210,233 |
| | | | |
| MD Solutions Australasia PTY Ltd. | 2013 | 2012 | |
| Sales | \$43,340 | \$139,900 | |
| Accounts Receivable | \$43,340 | \$139,900 | |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management's Discussion and Analysis of Financial Condition and Results of Operations of Misonix and its subsidiaries, in which we refer to the Company as "Misonix", "we", "our" and "us" should be read in conjunction with the accompanying unaudited financial statements included in "Item 1. Financial Statements" of this Report and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on September 24, 2013, for the fiscal year ended June 30, 2013 ("2013 Form 10-K"). Item 7 of the 2013 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of September 30, 2013.

Forward Looking Statements

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

Three months ended September 30, 2013 and 2012.

Net sales: Net sales decreased \$1,494,941 to \$3,075,584 for the three months ended September 30, 2013 from \$4,570,525 for the three months ended September 30, 2012. The decrease in sales is related to lower BoneScalpel revenue of \$752,573, lower SonaStar revenue of \$436,968, lower SonicOne revenue of \$31,923, lower Lysonix revenue of \$102,157, lower service revenue of \$106,558 and other lower revenue of \$64,761. However, there were twelve units consigned in the United States during the three months ended September 30, 2013 compared to four units for the same period in fiscal 2013. This resulted in an increase in domestic disposables excluding Aesculap, Inc. accounts.

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

| | Three months ended September 30, | | |
|-------------|----------------------------------|--------------|----------------|
| | 2013 | 2012 | Variance |
| BoneScalpel | \$ 1,348,588 | \$ 2,101,161 | \$ (752,573) |
| SonicOne | 468,963 | 500,886 | (31,923) |
| SonaStar | 1,135,710 | 1,572,678 | (436,968) |
| Other | 122,323 | 395,800 | (273,477) |
| | \$ 3,075,584 | \$ 4,570,525 | \$ (1,494,941) |

| | Three months ended September 30, | |
|-------------------|----------------------------------|--------------|
| | 2013 | 2012 |
| United States | \$ 1,581,270 | \$ 2,449,610 |
| Australia | 43,340 | 139,900 |
| Europe | 383,590 | 761,911 |
| Asia | 466,267 | 422,227 |
| Canada and Mexico | 84,705 | 226,060 |
| South America | 275,621 | 297,926 |
| South Africa | 93,576 | 206,683 |
| Middle East | 147,215 | 66,208 |
| | \$ 3,075,584 | \$ 4,570,525 |

Gross profit: Gross profit decreased to 56.3% for the three months ended September 30, 2013 from 59.7% for the three months ended September 30, 2012. The decrease is related to unabsorbed factory costs due to lower sales volume, along with an unfavorable sales channel mix, as there was a shift to higher foreign sales.

Selling expenses: Selling expenses increased \$370,266 to \$1,828,830 for the three months ended September 30, 2013 from \$1,458,564 for the three months ended September 30, 2012. Selling expenses increased due to higher personnel costs of \$111,945, primarily from an increase in headcount for customer service and support (including severance), higher travel expenses of \$50,621, higher commission expense of \$111,881 due to increases in commissionable sales, higher advertising expenses of \$41,045, higher depreciation expenses of \$42,486 and other unfavorable expenses of \$12,288.

General and administrative expenses: General and administrative expenses increased \$178,983 to \$1,221,211 for the three months ended September 30, 2013 from \$1,042,332 for the three months ended September 30, 2012. The increase is primarily related to higher non-cash stock-based compensation expense of \$44,999, higher legal expense of \$86,748 and higher accounting expense of \$27,025 and other unfavorable expenses of \$20,211.

Research and development expenses: Research and development expenses increased \$75,757 to \$472,888 for the three months ended September 30, 2013 from \$397,131 for the three months ended September 30, 2012. The increase is primarily due to higher product development costs of \$50,709, higher temporary help expense of \$16,076 and other unfavorable expenses of \$8,972.

Other income (expense): Other income for the three months ended September 30, 2013 was \$906,552 as compared to \$211,417 for the three months ended September 30, 2012. The increase in other income of \$695,135 is mainly due to an increase in royalty income of \$690,115 from Covidien plc.

Income taxes: For the three months ended September 30, 2013, the Company recorded an effective tax rate of (.3%), compared to 3.7%, for the three months ended September 30, 2012. The Company estimates its financial statement effective tax rate for the full year, inconclusive of discontinued operations to be approximately 1%. The actual effective rate for continuing operations may vary materially based on several factors including the realization of earn-outs recorded in discontinued operations and the related intraperiod tax allocation, the ratio of permanent differences to pretax income (loss), and a change in the valuation allowances as well as other factors.

PuriCore Settlement:

As previously disclosed, the Company had entered into a Product License and Distribution Agreement, dated as of July 19, 2011 (the "Distribution Agreement"), with PuriCore, Inc. ("PuriCore"). Pursuant to the Distribution Agreement, the Company had the right to distribute PuriCore's Vashe[®] solutions product in the United States on a private label basis under the name "Soma." Disputes between the Company and Puricore were finally resolved on October 11, 2013 when the parties executed a Settlement Agreement pursuant to which the Distribution Agreement was terminated with no additional payments required to be made by either Misonix or PuriCore (the "Settlement Agreement"). As a result of entering into the Settlement Agreement, the Company is no longer obligated to pay PuriCore the remaining minimum gross profit requirement in the amount of \$439,508 in the second quarter of fiscal 2014. Previously, all appropriate amounts had been recorded by the Company for the fiscal year ending June 30, 2013.

Discontinued Operations

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

For the three months ended

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| | September 30, 2013 | 2012 |
|---|-----------------------|----------|
| Revenues | \$ 4,975 | \$ 4,975 |
| Income from discontinued operations, before tax | \$ 4,975 | \$ 6,318 |
| Income tax expense | - | - |
| Net income from discontinued operations, net of tax | \$ 4,975 | \$ 6,318 |

Liquidity and Capital Resources

We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations and possible future public or private debt and/or equity offerings. At times, we evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which may require the use of cash. We believe that our cash, other liquid assets and access to equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures. In the event that they do not, we may require additional funds in the future to support our working capital requirements or for other purposes and may seek to raise such additional funds through the sale of public or private equity and/or debt financings, and divestiture of current business lines as well as from other sources. No assurance can be given that additional financing will be available in the future or that if available, such financing will be obtainable on favorable terms when required.

Working capital at September 30, 2013 and June 30, 2013 was \$9,278,000 and \$9,717,000, respectively. For the three months ended September 30, 2013, cash used in operations totaled \$1,240,452, primarily related to operating losses of \$888,977, lower accounts payable and other accrued expenses of \$855,675, partially offset by depreciation and amortization of \$231,271, stock-based compensation of \$143,944 and lower prepaid expenses and other assets of \$117,120. For the three months ended September 30, 2013, cash used in investing activities was \$34,352, primarily due to applications for additional patents. For the three months ended September 30, 2013, cash provided by financing activities was \$116,905 from the exercise of stock options. For the three months ended September 30, 2013, cash provided by discontinued operations was \$4,975.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to the Company.

Other

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

New Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk:

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed are interest rates on short-term investments.

Interest Rate Risk:

The Company earns interest on cash balances and pays interest on debt incurred. In light of the Company's existing cash, results of operations and projected borrowing requirements, the Company does not believe that a 10% change in interest rates would have a significant impact on its consolidated financial position.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decision regarding required disclosures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2013 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three months ended September 30, 2013 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1A. Risk Factors.

Risks and uncertainties that, if they were to occur, could materially adversely affect our business or that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report and other public statements were set forth in the “Item 1A. Risk Factors” section of our 2013 Form 10-K. There have been no material changes from the risk factors disclosed in that Form 10-K.

Item 6. Exhibits.

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification

Exhibit 32.1 Section 1350 Certification of Chief Executive Officer

Exhibit 32.2 Section 1350 Certification of Chief Financial Officer

SIGNATURES

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

Date: November 7, 2013

MISONIX, INC.
(Registrant)

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

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