MISONIX INC
Form 10-Q
February 08, 2012

**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

(Mark One)

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

**For the quarterly period ended December 31, 2011**

**OR**

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

**For the transition period from _____ to _____**

**Commission file number: 1-10986**

**MISONIX, INC.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | 11-2148932 |
| (State or other jurisdiction of | (I.R.S. Employer |
| incorporation or organization) | Identification No.) |

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

(631) 694-9555

(Registrant's telephone number, including area code)

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

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 þ 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 o | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company þ |
|---|---|---|---|

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

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 8, 2012 |
|---|---|
| Common Stock, $.01 par value | 7,001,370 |

**MISONIX, INC.**

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**PART I — FINANCIAL INFORMATION**

**Item 1. Financial Statements**.

**MISONIX, INC. and Subsidiaries**

**Consolidated Balance Sheets**

| | December 31, 2011 (Unaudited) | June 30, 2011 (Derived from audited financial statements) |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $6,696,617 | $6,881,093 |
| Accounts receivable, less allowance for doubtful accounts of $140,739 and $115,739, respectively | 1,875,984 | 2,085,972 |
| Inventories, net | 3,658,409 | 3,130,207 |
| Prepaid expenses and other current assets | 172,224 | 374,472 |
| Note receivable | 410,500 | 210,000 |
| Current assets of discontinued operations | 498,234 | 857,095 |
| Total current assets | 13,311,968 | 13,538,839 |
| | | |
| Property, plant and equipment, net | 958,664 | 969,336 |
| Goodwill | 1,701,094 | 1,701,094 |
| Other assets | 1,748,338 | 2,127,194 |
| Assets of discontinued operations | - | 21,859 |
| Total assets | $17,720,064 | $18,358,322 |
| | | |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | 1,041,124 | 1,110,694 |
| Accrued expenses and other current liabilities | 1,109,455 | 1,969,078 |
| Liabilities of discontinued operations | 228,675 | 225,864 |
| Total current liabilities | 2,379,254 | 3,305,636 |
| | | |
| Deferred lease liability | 18,519 | 14,043 |
| Deferred income | 139,253 | 161,360 |
| Total liabilities | 2,537,026 | 3,481,039 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| | 70,792 | 70,792 |

| | | |
|---|---|---|
| Common stock, $.01 par value-shares authorized 20,000,000, 7,079,170 issued and 7,001,370 outstanding | | |
| Additional paid-in capital | 25,957,578 | 25,787,960 |
| Accululated deficit | (10,432,908 ) | (10,569,045 ) |
| Treasury stock, at cost, 77,800 shares | (412,424 ) | (412,424 ) |
| Total stockholders' equity | 15,183,038 | 14,877,283 |
| Total liabilities and stockholders' equity | $17,720,064 | $18,358,322 |

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC. and Subsidiaries**

**Consolidated Statements of Operations**

**(Unaudited)**

| | For the six months ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Net sales | $6,767,734 | $5,454,824 |
| Cost of goods sold | 2,734,968 | 2,259,004 |
| Gross profit | 4,032,766 | 3,195,820 |
| | | |
| Operating expenses: | | |
| Selling expenses | 2,374,297 | 1,728,207 |
| General and administrative expenses | 2,250,205 | 2,327,287 |
| Research and development expenses | 613,676 | 733,438 |
| Total operating expenses | 5,238,178 | 4,788,932 |
| Loss from operations | (1,205,412) | (1,593,112) |
| | | |
| Other income (expense): | | |
| Interest income | 158 | 75 |
| Interest expense | (363) | (5,079) |
| Royalty income and license fees | 326,507 | 351,702 |
| Royalty expense/fee recovery | 121,276 | (40,259) |
| Other | (20,479) | 39,833 |
| Total other income | 427,099 | 346,272 |
| | | |
| Loss from continuing operations before income taxes | (778,313) | (1,246,840) |
| | | |
| Income tax (benefit)/expense | (202,273) | 42,100 |
| | | |
| Net loss from continuing operations | (576,040) | (1,288,940) |
| Discontinued operations: | | |
| Loss from discontinued operations net of a tax benefit of $130,517 and $0, respectively | (206,181) | (265,072) |
| Gain from sale of discontinued operations net of tax expense of $532,268 and $0, respectively | 918,358 | - |
| Net income/(loss) from discontinued operations | 712,177 | (265,072) |
| Net income/(loss) | $136,137 | $(1,554,012) |
| | | |
| Net loss per share from continuing operations - Basic | $(0.08) | $(0.18) |
| Net income/(loss) per share from discontinued operations - Basic | 0.10 | (0.04) |
| Net income/(loss) per share - Basic | $0.02 | $(0.22) |
| | | |
| Net loss per share from continuing operations - Diluted | $(0.08) | $(0.18) |
| Net income/(loss) per share from discontinued operations - Diluted | 0.10 | (0.04) |
| Net income/(loss) per share - Diluted | $0.02 | $(0.22) |

| | | |
|---|---|---|
| Weighted Average Shares - Basic | 7,001,370 | 7,001,370 |
| Weighted Average Shares - Diluted | 7,001,370 | 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, | |
|---|---|---|
| | 2011 | 2010 |
| Net sales | $3,550,535 | $2,762,556 |
| Cost of goods sold | 1,281,561 | 1,039,307 |
| Gross profit | 2,268,974 | 1,723,249 |
| | | |
| Operating expenses: | | |
| Selling expenses | 1,194,045 | 907,693 |
| General and administrative expenses | 1,082,385 | 1,109,482 |
| Research and development expenses | 303,702 | 352,161 |
| Total operating expenses | 2,580,132 | 2,369,336 |
| Loss from operations | (311,158) | (646,087) |
| | | |
| Other income (expense): | | |
| Interest income | 139 | 25 |
| Interest expense | (151) | (1,438) |
| Royalty income and license fees | 188,372 | 172,587 |
| Royalty expense/fee recovery | 149,846 | (20,916) |
| Other | (6,335) | (5,576) |
| Total other income | 331,871 | 144,682 |
| | | |
| Income/(loss) from continuing operations before income taxes | 20,713 | (501,405) |
| | | |
| Income tax (benefit)/expense | (207,233) | 4,000 |
| | | |
| Net income/(loss) from continuing operations | 227,946 | (505,405) |
| Discontinued operations: | | |
| Loss from discontinued operations net of a tax benefit of $130,517 and $0, respectively | (126,225) | (30,761) |
| Gain from sale of discontinued operations net of tax expense of $532,268 and $0, respectively | 918,358 | - |
| Net income/(loss) from discontinued operations | 792,133 | (30,761) |
| Net income/(loss) | $1,020,079 | $(536,166) |
| | | |
| Net income/(loss) per share from continuing operations - Basic | $0.03 | $(0.07) |
| Net income/(loss) per share from discontinued operations - Basic | 0.11 | (0.01) |
| Net income/(loss) per share - Basic | $0.15 | $(0.08) |
| | | |
| Net income/(loss) per share from continuing operations - Diluted | $0.03 | $(0.07) |
| Net income/(loss) per share from discontinued operations - Diluted | 0.11 | (0.01) |

| | | |
|---|---|---|
| Net income/(loss) per share - Diluted | $0.15 | $(0.08) |
| Weighted Average Shares - Basic | 7,001,370 | 7,001,370 |
| Weighted Average Shares - Diluted | 7,001,370 | 7,001,370 |

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC. and Subsidiaries**

**Consolidated Statement of Stockholders' Equity**

**(Unaudited)**

| | Common Stock $.01 Par value | | Treasury Stock | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Additional paid-in capital | Accumulated deficit | Total stockholders' equity |
| Balance, June 30, 2011 | 7,079,170 | $70,792 | (77,800) | $(412,424) | $25,787,960 | $(10,569,045) | $14,877,283 |
| Net income/comprehensive income | - | - | - | - | - | 136,137 | 136,137 |
| Stock-based compensation | - | - | - | - | 169,618 | - | 169,618 |
| Balance, December 31, 2011 | 7,079,170 | $70,792 | (77,800) | $(412,424) | $25,957,578 | $(10,432,908) | $15,183,038 |

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

| | For the six months ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Operating activities | | |
| Net loss from continuing operations | $(576,040) | $(1,288,940) |
| Adjustments to reconcile net loss to net cash used in continuing operating activities: | | |
| Depreciation and amortization and other non-cash items | 341,425 | 172,374 |
| Bad debt expense (recovery) | 25,000 | (24,022) |
| Stock-based compensation | 169,618 | 130,998 |
| Deferred income | (65,282) | (25,728) |
| Deferred lease liability | 4,476 | 5,617 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 184,988 | 84,126 |
| Inventories | (218,942) | (600,682) |
| Prepaid expenses and other assets | 285,404 | 226,700 |
| Accounts payable and accrued expenses | (878,347) | (22,148) |
| Net cash used in operating activities | (727,700) | (1,341,705) |
| | | |
| Investing activities | | |
| Acquisition of property, plant and equipment | (285,053) | (108,359) |
| Payments for assets acquisition (note 10) | (259,760) | (800,000) |
| Net cash used in investing activities | (544,813) | (908,359) |
| | | |
| Financing activities | | |
| Payments of short-term borrowings | - | (166,978) |
| Principal payments on capital lease obligations | (7,669) | (7,178) |
| Net cash used in financing activities | (7,669) | (174,156) |
| | | |
| Cash flows from discontinued operations | | |
| Net cash used in operating activities | (379,110) | (358,183) |
| Net cash provided by investing activities | 1,474,816 | 1,115,000 |
| Net cash provided by discontinued operations | 1,095,706 | 756,817 |
| | | |
| Effect of exchange rate changes on cash | - | 3,923 |
| Net decrease in cash and cash equivalents | (184,476) | (1,663,480) |
| Cash and cash equivalents at beginning of period | 6,881,093 | 9,900,605 |
| Cash and cash equivalents at end of period | $6,696,617 | $8,237,125 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Interest | $363 | $5,079 |

| | | |
|---|---|---|
| Income taxes | $10,809 | $42,100 |

*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, 2011 ("2011 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 2011 Annual Report. There have been no changes in the Company's significant accounting policies subsequent to June 30, 2011.

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, Misonix Limited and Hearing Innovations, Inc. ("Hearing Innovations"). All significant intercompany balances and transactions have been eliminated.

**Organization and Business**

Misonix is a New York corporation which, through its predecessors, was first organized in 1959. The Company designs, manufactures, develops and markets minimally invasive ultrasonic medical device products. These products include the BoneScalpelTM cutting system which is used among other things for surgical procedures of the spine, the SonaStar® Surgical Aspirator which is used to emulsify and remove soft and hard tumors, the SonicOne® Wound Cleansing and Debridement System that offers tissue specific debridement and cleansing of wounds for effective removal of devitalized tissue and fibrin deposits while sparing viable cells, and the AutoSonix ultrasound cutting and coagulating system which is marketed by Misonix through an agreement with Covidien Ltd. Misonix also markets its Lysonix ultrasound assisted liposuction device through Mentor Corporation, a subsidiary of Johnson & Johnson.

The Company's revenues are generated from various geographic regions. Sales by the Company in major industrial countries are made primarily through distributors. The following is an analysis of net sales from continuing operation by geographic region:

| | Three months ended December 31, | | | Six months ended December 31, | |
|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 |
| United States | $ 1,872,338 | $ 1,923,549 | United States | $ 3,750,051 | $ 3,805,735 |
| Australia | 62,641 | 56,959 | Australia | 80,826 | 64,464 |
| Europe | 645,914 | 319,849 | Europe | 1,474,003 | 690,359 |
| Asia | 445,080 | 97,344 | Asia | 483,686 | 137,101 |
| Canada and Mexico | 102,801 | 25,805 | Canada and Mexico | 290,942 | 97,207 |
| South America | 204,944 | 160,807 | South America | 279,739 | 283,783 |
| South Africa | 81,330 | - | South Africa | 141,715 | 141,712 |
| Middle East | 135,487 | 159,824 | Middle East | 266,772 | 178,882 |
| Other | - | 18,419 | Other | - | 55,581 |
| | $ 3,550,535 | $ 2,762,556 | | $ 6,767,734 | $ 5,454,824 |

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

**Discontinued Operations**

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, Misonix retained amongst 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 is comprised primarily of property and equipment, Misonix reported a gain on sale of $1,451,000 and recorded income taxes of $532,000 on the gain during the six months ended December 31, 2011. 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, 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 was completed on

November 30, 2011. The remaining inventory as of November 30, 2011 will be utilized by Mystaire over a period of six months and Mystaire will pay Misonix its cost of the inventory as the inventory is utilized with any remaining inventory at the end of the six month period sold to Mystaire for $1,000. As of December 31, 2011 the carrying value of the remaining inventory aggregated approximately $320,000. Management believes that the carrying value of the inventory continues to be recoverable.

The results of operations of the Laboratory and Forensic Safety business will be 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.

On August 4, 2009, the Company sold its Labcaire Systems, Ltd. ("Labcaire") subsidiary to PuriCore International Limited ("PuriCore Limited") for a total purchase price of up to $5.6 million. The Company received $3.6 million at closing and a promissory note in the principal amount of $1 million, payable in equal installments of $250,000 on the next four anniversaries of the closing. During the year ended June 30, 2011, the Company received the first installment. The note receivable was discounted over the four years using a 4% imputed interest rate. This rate was consistent with published discounts. The discounted value of the note ($900,000) was used to determine gain or loss on the sale and the remaining outstanding balance is included in other assets in the consolidated balance sheet, with the current portion reflected as a component of notes receivable. The Company 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. The aggregate commission was not recognized in determining the gain or loss on the sale of Labcaire until the commission was to be paid. As of June 30, 2011, there were no commissions paid. For the year ended June 30, 2010, the Company recorded a pre-tax loss on the sale of Labcaire of $295,879. Results of Labcaire operations have been reported as a discontinued operation for all periods presented.

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 recorded as a component of loss from discontinued operations for the year ended June 30, 2011 and (iii) enter into a Product License and Distribution Agreement, dated as of July 19, 2011, with PuriCore (the "Distribution Agreement").

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**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

Pursuant to the Distribution Agreement, the Company has been granted the right to distribute PuriCore's Vashe solution products in the United States, on a private label basis, as an 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 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, 2011, Misonix has purchased, Licensed Products from Puricore aggregating approximately $49,500 in gross margin value to PuriCore.

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 if (i) 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)

The following represents the results of the Laboratory and Forensic Safety Products business along with legal and other expenses associated with Labcaire and Misonix HIFU Technologies Limited which are included in discontinued operations:

| | For the three months ended December 31, | | For the six months ended December 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | $ 905,245 | $ 661,133 | $ 1,427,203 | $ 1,226,853 |
| (Loss) from discontinued operations, before tax | $ (256,742) | $ (30,761) | $ (336,698) | $ (265,072) |
| Gain on sale of discontinued operations | 1,450,626 | - | 1,450,626 | - |
| Income tax expense | (401,751) | - | (401,751) | - |
| Net income/(loss) from discontinued operations net of tax | $ 792,133 | $ (30,761) | $ 712,177 | $ (265,072) |

Current assets of discontinued operations are comprised of accounts receivable of $178,089 and $208,282 and inventories of $320,145 and $648,813 at December 31, 2011 and June 30, 2011, respectively. Long term assets of discontinued operations are comprised entirely of property and equipment at June 30, 2011. Current liabilities of discontinued operations are comprised entirely of accounts payables and accrued expenses at December 31, 2011 and June 30, 2011.

**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 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 (principally outstanding common stock options) for the period.

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, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Basic shares | 7,001,370 | 7,001,370 | 7,001,370 | 7,001,370 |
| Dilutive effect of stock options | — | — | — | — |
| Diluted shares | 7,001,370 | 7,001,370 | 7,001,370 | 7,001,370 |

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

Diluted EPS for the six months and three months ended December 31, 2011 and the six months and three months ended December 31, 2010 presented is the same as basic EPS, as the inclusion of the effect of common share equivalents then outstanding would be anti-dilutive. For this reason, excluded from the calculation of diluted EPS are outstanding options to purchase 1,824,680 and 1,735,550 shares of common stock for the six months ended December 31, 2011 and December 31, 2010, respectively.

3. Comprehensive Income (Loss)

Total comprehensive income/(loss) was $136,137 and $1,020,079 for the six and three months ended December 31, 2011 and $(1,554,012) and $(536,166) for the six and three months ended December 31, 2010, respectively. There are

no components of comprehensive loss other than net loss for all periods presented.

4. Stock-Based Compensation

Stock options are granted with exercise prices not less than the fair market value of our common stock at the time of the grant, with an exercise term (as determined by the committee administering the applicable option plan (the "Committee")) not to exceed 10 years. The Committee also 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, 2011 and 2010, the Company granted options to purchase 233,750 and 219,500 shares of the Company's common stock, respectively.

Stock-based compensation expense for the six month periods ended December 31, 2011 and 2010 was $170,000 and $131,000, respectively. Stock-based compensation for the three month periods ended December 31, 2011 and 2010 was $88,000 and $71,000, 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, 2011, there was approximately $872,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 2.9 years.

**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

There was no cash received from the exercise of stock options for the six and three month periods ended December 31, 2011 and 2010. Cash flows from tax benefits attributable to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows.

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

| | For the six months ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Risk-free interest rate | 3.4 % | 3.9 % |
| Expected option life in years | 6.5 | 6.5 |
| Expected stock price volatility | 75.4% | 78.3% |
| Expected dividend yield | 0.0 % | 0.0 % |
| Weighted-average fair value of options granted | $1.75 | $1.49 |

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 common 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, 2011 were as follows:

| | Options | | | |
|---|---|---|---|---|
| | | | Weighted Average | |
| | | Weighted | Remaining | |
| | | Average | Contractual | Aggregate |
| | Number of | Exercise | Life | Intrinsic |

| | Shares | Price | (years) | Value (a) |
|---|---|---|---|---|
| Outstanding as of June 30, 2011 | 1,795,415 | $ 4.06 | | |
| Granted | 233,750 | 2.19 | | |
| Forfeited | (1,000) | 2.13 | | |
| Expired | (203,485) | 6.07 | | |
| Outstanding as of December 31, 2011 | 1,824,680 | 3.60 | 6.2 | $ 86,944 |
| Exercisable and vested at December 31, 2011 | 1,228,868 | $ 4.32 | 4.9 | $ 41,118 |
| Available for grant at December 31, 2011 | 433,950 | | | |

(a) Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying common stock, based on the respective market prices at December 31, 2011 or if exercised, the exercise dates, exceeds the exercise prices of the respective options.

5. Income Taxes

There are no federal, state or foreign income tax audits in process as of December 31, 2011. Open tax years related to federal and state income tax filings are for the years ended June 30, 2008, 2009, 2010 and 2011. The Company files state tax returns in New York and Colorado and its tax returns in those states have never been examined. The Company's U.K. subsidiaries, Misonix Limited and Misonix Urology Services Limited (formerly, UKHIFU Limited), file tax returns in England. The England Inland Revenue Service has not examined these tax returns. The Company’s French subsidiary, Misonix Sarl, files tax returns in France. The French tax authorities have not examined these tax returns. As of December 31, 2011 and June 30, 2011, the Company has no material unrecognized tax benefits.

As of December 31, 2011, the valuation allowance was determined by estimating the recoverability of the deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making this assessment, the ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies in making this assessment. Based on these considerations, management concluded that it is more likely than not that its deferred tax assets will not be fully realized.

**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

6. Inventories

Inventories are summarized as follows:

| | December 31, 2011 | June 30, 2011 |
|---|---|---|
| Raw material | $2,221,569 | $1,845,667 |
| Work-in-process | 956,674 | 1,173,639 |
| Finished goods | 942,364 | 491,015 |
| | 4,120,607 | 3,510,321 |
| Less valuation reserve | 462,198 | 380,114 |
| | $3,658,409 | $3,130,207 |

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

| | December 31, 2011 | June 30, 2011 |
|---|---|---|
| Accrued payroll and vacation | $421,763 | $465,272 |
| Accrued bonuses | 100,000 | 200,000 |
| Accrued commissions | 108,266 | 141,408 |
| Accrued professional and legal fees | 75,188 | 752,609 |
| Accrued royalties | 22,922 | 154,761 |
| Income tax payable | 198,518 | 16,000 |
| Deferred income | 52,188 | 95,363 |
| Other | 130,610 | 143,665 |
| | $1,109,455 | $1,969,078 |

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 unfavorable rulings 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.

**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

9. Fair Value of Financial Instruments

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

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

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

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

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

| December 31, 2011 | Carrying Amount | Fair Value |
|---|---|---|
| Cash and cash equivalents | $ 6,696,617 | $6,696,617 |
| Trade accounts receivable | 1,875,984 | 1,875,984 |
| Trade accounts payable | 1,041,124 | 1,041,124 |
| Note receivable – short term | 410,500 | 410,500 |
| Note receivable – long term (included in other assets) | 190,000 | 190,000 |

| June 30, 2011 | Carrying Amount | Fair Value |
|---|---|---|
| Cash and cash equivalents | $ 6,881,093 | $6,881,093 |
| Trade accounts receivable | 2,085,972 | 2,085,972 |
| Trade accounts payable | 1,110,694 | 1,110,694 |
| Note receivable – short term | 210,000 | 210,000 |

| | | |
|---|---|---|
| Note receivable – long term (included in other assets) | 440,000 | 440,000 |

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.

***Note Receivable***

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

**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

***Non-financial assets and liabilities***

Certain non-financial assets and liabilities, principally goodwill, are measured at fair value on a non-recurring basis; that is the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when evidence of impairment exists. At December 31, 2011 and for the three months then ended, no fair value adjustments or material fair value measurements were required for non-financial assets or liabilities.

10. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisitions of assets of Fibra Sonics, Inc.

Goodwill and intangible assets with indefinite useful lives are not amortized. We review goodwill and identifiable intangible assets with indefinite lives for impairment annually and whenever events or changes indicate that the carrying value of an asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of significant assets or products. Application of these impairment tests requires significant judgments, including estimation of cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur and determination of our weighted-average cost of capital. Changes in the projected cash flows and discount rate estimates and assumptions underlying the valuation of goodwill could materially affect the determination of fair value at acquisition or during subsequent periods when tested for impairment. The Company completed its annual goodwill impairment test for fiscal 2011. There were no indicators that the recorded goodwill was impaired as of December 31, 2011 which required further testing.

On October 7, 2010, the Company, and Aesculap entered into a Termination, Amendment and Buy-Back Agreement to Distributor Agreement (the "Termination Agreement"). Pursuant to the Termination Agreement, the parties agreed to terminate, as of October 15, 2010 (the "Termination Date"), (i) Misonix's remaining obligations under the Distributor Agreement dated November 1999 between Aesculap and F-S, as amended (the "Distributor Agreement"), and (ii) Aesculap's rights to sell procedure packs (the "Sale Rights") to the Sonastar Customers (as defined below). On the Termination Date, in consideration of the purchase and sale of (i) Aesculap's current service contracts ("Sonastar Contracts") for the products (the "Products") that are the subject of the Distributor Agreement, customer list and

customers currently evaluating the Products all with respect to the sale and servicing of the Products (the "Customer List") and (ii) the Sale Rights, on October 15, 2010, Misonix paid Aesculap $800,000. Misonix will assume all rights, responsibilities and obligations pursuant to and under the (i) Sonastar Contracts and Customer List and (ii) the Sale Rights, including, without limitation, the sale of accessory Products and servicing and training of the Products to the customers with Sonastar Contracts (the "Sonastar Customers"). Misonix also agreed to repurchase from Aesculap the current inventory of (i) new Products held by Aesculap at the price Aesculap paid for such Products and (ii) used Products held by Aesculap for demonstration and/or loaner purposes at the prices equal to Aesculap's book-value as of July 31, 2010 for such Products. The purchase price for the current inventory acquired was $519,000 and is payable in four quarterly installments beginning on December 31, 2010, all of which has been paid as of December 31, 2011. Aesculap also agreed to certain non-competition and non-solicitation restrictions for an eighteen (18) month period.

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

The cost of acquiring or processing patents is capitalized at cost. This amount is being amortized using the straight-line method over the estimated useful lives of the underlying assets, which is approximately 17 years. Net patents reported in other assets totaled $567,011 and $548,016 at December 31, 2011 and June 30, 2011, respectively. Accumulated amortization totaled $443,483 and $420,359 at December 31, 2011 and June 30, 2011, respectively. Amortization expenses for the three month period ending December 31, 2011 and December 31, 2010 was $5,000, and $16,000, respectively. Amortization expenses for the six month periods ending December 31, 2011 and December 31, 2010 was $21,000 and $21,000, respectively.

Net customer relationships reported in other assets totaled $600,000 and $680,000 at December 31, 2011 and June 30, 2011, respectively. Accumulated amortization amounted to $200,000 at December 31, 2011 and $120,000 at June 30, 2011, respectively. Amortization expenses for the three month periods ending December 31, 2011 and December 31, 2010 was $40,000 and $40,000, respectively. Amortization expenses for the six month periods ending December 31, 2011 and December 31, 2010 was $80,000 and $40,000, respectively. Customer relationships are being amortized on a straight-line basis over a five year period.

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

| | Patents | Customer Relationships |
|---|---|---|
| 2012 | $35,145 | $ 80,000 |
| 2013 | 68,343 | 160,000 |
| 2014 | 65,701 | 160,000 |
| 2015 | 60,139 | 160,000 |
| 2016 | 57,077 | 40,000 |

| | | |
|---|---|---|
| Thereafter | 280,606 | - |
| | $567,011 | $ 600,000 |

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**MISONIX, INC. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

11. Recent Accounting Pronouncements

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

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles* ("GAAP") *and International Financial Reporting Standards* ("IFRS"). This guidance amends U.S. GAAP to conform with measurement and disclosure requirements in IFRS. The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, and they include those that clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. In addition, to improve consistency in application across jurisdictions, some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. This amended guidance is to be applied prospectively and is effective for fiscal years beginning after December 15, 2011. The Company is evaluating the guidance and does not anticipate that adoption will have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB amended Accounting Standard Codification 220, *Comprehensive Income*. The amendment eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. In accordance with the amendment, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us is July 1, 2012, with full retrospective application required. As a result, the adoption of this standard will change how we present other comprehensive income (loss), which has been historically presented as part of our consolidated statements of stockholders' equity.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. Under the revised guidance, companies testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If companies determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is evaluating the revised guidance and does not anticipate that adoption will have a material impact on the Company's consolidated financial statements.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations of Misonix and its subsidiaries, 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 20, 2011, for the fiscal year ended June 30, 2011 ("2011 Form 10-K"). Item 7 of the 2011 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of December 31, 2011.

**Forward Looking Statements**

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

Six months ended December 31, 2011 and 2010.

**Net sales:** Net sales increased $1,312,910 to $6,767,734 for the six months ended December 31, 2011 from $5,454,824 for the six months ended December 31, 2010. The increase was primarily attributable to sales of the Company's Neuroaspirator products, service revenue, and Lysonix product revenues.

**Gross profit:** Gross profit increased to 59.6% for the six months ended December 31, 2011 from 58.6% for the six months ended December 31, 2010.

**Selling expenses:** Selling expenses increased $646,090 to $2,374,297 for the six months ended December 31, 2011 from $1,728,207 for the six months ended December 31, 2010. Selling expenses increased primarily due to higher commissions, higher employee related expenses and higher advertising and depreciation expenses due to the rental/lease units in the field.

**General and administrative expenses:** General and administrative expenses decreased $77,082 from $2,327,287 in the six months ended December 31, 2010 to $2,250,205 in the six months ended December 31, 2011 mainly due to lower legal and employee costs.

**Research and development expenses:** Research and development expenses decreased $119,762 from $733,438 for the six months ended December 31, 2010 to $613,676 for the six months ended December 31, 2011. Research and development expenses decreased primarily due to lower product development and consulting expenses.

**Other income (expense):** Other income for the six months ended December 31, 2011 was $427,099 as compared to $346,272 for the six months ended December 31, 2010, an increase of $80,827 due to lower expense due to the reversal of $182,000 of the BoneScalpel fee for non-performance of contractual obligations by the advisor and a gain on the disposal of assets related to Misonix Limited booked in the first quarter of fiscal 2011.

**Income taxes:** The effective tax rate was 26% for the six months ended December 31, 2011, as compared to an effective tax rate of (3%) for the six months ended December 31, 2010. The continuing operations effective rate of 26% is predicated on the application of the exception to the general intraperiod tax allocation guidance due to forecasted fiscal 2012 loss from continuing operations and income from discontinued operations. The tax benefit recognized in continuing operations is based on the application of the annual estimated effective tax rate while the tax in discontinued operations is recorded in the six month period ended December 31, 2011. The Company expects the tax in discontinued operations will be principally offset with a tax benefit from continuing operations for the fiscal year ended June 30, 2012.

Three months ended December 31, 2011 and 2010.

**Net sales:** Net sales increased $787,979 to $3,550,535 for the three months ended December 31, 2011 from $2,762,556 for the three months ended December 31, 2010. The increase was primarily attributable to sales of the Company's BoneScalpel and Neuroaspirator products, partially offset by lower Autosonix revenue.

**Gross profit:** Gross profit increased to 63.9% for the three months ended December 31, 2011 from 62.4% for the three months ended December 31, 2010.

**Selling expenses:** Selling expenses increased $286,352 to $1,194,045 for the three months ended December 31, 2011 from $907,693 for the three months ended December 31, 2010. Selling expenses increased primarily due to higher commissions, higher employee related expenses and higher advertising, depreciation, and travel expenses.

**General and administrative expenses:** General and administrative expenses decreased $27,097 from $1,109,482 in the three months ended September 30, 2010 to $1,082,385 in the three months ended September 30, 2011, primarily due to lower shareholder relation costs, lower maintenance and repair, and lower temporary help costs.

**Research and development expenses:** Research and development expenses decreased $48,459 from $352,161 for the three months ended December 31, 2010 to $303,702 for the three months ended December 31, 2011. Research and development expenses decreased primarily due to lower product development expenses.

**Other income (expense):** Other income for the three months ended December 31, 2011 was $331,871 as compared to $144,682 for the three months ended December 31, 2010, an increase of $187,189 due to lower expense due to the reversal of $182,000 of the BoneScalpel fee due to non-performance of contractual obligations by the advisor.

**Income taxes:** The normal effective tax rate of approximately 35% was increased to a rate of (1,000%) for the three months ended December 31, 2011, based upon the tax expense being separated into continuing and discontinuing operations for financial reporting purposes as compared to an effective tax rate of (1%) for the three months ended December 31, 2010. The continuing operations effective rate of 1,000% is predicated on the application of the exception to the general intraperiod tax allocation guidance due to a forecasted fiscal 2012 loss from continuing operations and income from discontinued operations. The tax benefit recognized in continuing operations is based on the application of the annual estimated effective tax rate while the tax in discontinued operations is recorded in the three month period ended December 31, 2011. The Company expects the tax in discontinued operations will be principally offset with a tax benefit from continuing operations for the fiscal year ended June 30, 2012.

**Discontinued Operations -**

Refer to Note 1 of the notes to consolidated financial statements for a description of the discontinued operations. The following summarizes the results of the discontinued operations:

| | For the three months ended December 31, | | For the six months ended December 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | $ 905,245 | $ 661,133 | $ 1,427,203 | $ 1,226,853 |
| (Loss) from discontinued operations, before tax | $ (256,742) | $ (30,761) | $ (336,698) | $ (265,072) |
| Gain on sale of discontinued operations | 1,450,626 | - | 1,450,626 | - |
| Income tax expense | (401,751) | - | (401,751) | - |
| Net income/(loss) from discontinued operations net of tax | $ 792,133 | $ (30,761) | $ 712,177 | $ (265,072) |

**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, divestiture of current business lines as well as from other sources. No assurance can be given that additional financing will be available in the future or that if available, such financing will be obtainable on favorable terms when required.

Working capital at December 31, 2011 and June 30, 2011 was $10,933,000 and $10,233,000, respectively. For the six months ended December 31, 2011, cash used in operations totaled $728,000 primarily due to an operating loss of $576,000 and stock-based compensation of $170,000. For the six months ended December 31, 2011, cash used in investing activities totaled $545,000 due to the combination of the acquisition of fixed assets and the purchase of assets from Aesculap, Inc. For the six months ended December 31, 2011, cash used in financing activities was $6,000.

**Off-Balance Sheet Arrangements**

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

**Other**

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

**New Accounting Pronouncements**

We are required to adopt certain new accounting pronouncements. See note 11 to our consolidated financial statements included herein.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

*Market Risk:*

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

*Interest Rate Risk:*

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

**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decision regarding required disclosures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2011 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

*Changes in Internal Control Over Financial Reporting*

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

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**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 2011 Form 10-K. There have been no material changes from the risk factors disclosed in that Form 10-K.

**Item 6. Exhibits.**

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

**SIGNATURES**

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

Date: February 8, 2012

MISONIX, INC.
(Registrant)

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

By: /s/ Richard Zaremba
Richard Zaremba
Senior Vice President, Chief Financial Officer,

Treasurer and Secretary