

MISONIX INC
Form 10-Q
November 06, 2014

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, 2014

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

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

(631) 694-9555

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Outstanding at

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| | |
|-------------------------------|------------------|
| Class of Common Stock | November 6, 2014 |
| Common Stock, \$.01 par value | 7,504,612 |

MISONIX, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

MISONIX, INC. and Subsidiaries

Consolidated Balance Sheets

| | September 30, 2014 (unaudited) | June 30, 2014 (derived from audited financial statements) |
|--|--|--|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,597,869 | \$ 7,039,938 |
| Accounts receivable, less allowance for doubtful accounts of \$146,868 and \$136,868, respectively | 3,305,745 | 3,759,152 |
| Inventories, net | 4,534,409 | 4,217,350 |
| Prepaid expenses and other current assets | 300,265 | 367,830 |
| Total current assets | 15,738,288 | 15,384,270 |
| Property, plant and equipment, net of accumulated amortization and depreciation of \$5,043,965 and \$4,842,009, respectively | 1,548,532 | 1,517,852 |
| Goodwill | 1,701,094 | 1,701,094 |
| Intangible and other assets | 825,407 | 924,653 |
| Total assets | \$ 19,813,321 | \$ 19,527,869 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,433,715 | \$ 1,650,323 |
| Accrued expenses and other current liabilities | 1,305,834 | 1,457,250 |
| Total current liabilities | 2,739,549 | 3,107,573 |
| Deferred lease liability | 12,461 | 16,614 |
| Deferred income | 41,929 | 51,318 |
| Total liabilities | 2,793,939 | 3,175,505 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity: | | |

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| | | |
|--|---------------|---------------|
| Common stock, \$.01 par value-shares authorized 20,000,000, 7,589,775 and 7,412,096 shares issued and 7,491,862 and 7,334,536 shares outstanding, respectively | 75,898 | 74,121 |
| Additional paid-in capital | 28,673,718 | 28,169,622 |
| Accumulated deficit | (11,097,189) | (11,480,386) |
| Treasury stock, at cost, 97,913 and 77,560 shares respectively | (633,045) | (410,993) |
| Total stockholders' equity | 17,019,382 | 16,352,364 |
| Total liabilities and stockholders' equity | \$ 19,813,321 | \$ 19,527,869 |

See Accompanying Notes to Consolidated Financial Statements.

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

| | For the three months ended September 30, | |
|---|---|--------------|
| | 2014 | 2013 |
| Net sales | \$4,539,337 | \$3,075,584 |
| Cost of goods sold | 1,586,105 | 1,345,330 |
| Gross profit | 2,953,232 | 1,730,254 |
| Operating expenses: | | |
| Selling expenses | 2,019,286 | 1,828,830 |
| General and administrative expenses | 1,246,078 | 1,221,315 |
| Research and development expenses | 437,591 | 472,888 |
| Total operating expenses | 3,702,955 | 3,523,033 |
| Loss from operations | (749,723) | (1,792,779) |
| Other income (expense): | | |
| Interest income | 25 | 19 |
| Royalty income and license fees | 1,147,951 | 912,794 |
| Other | (5,679) | (6,261) |
| Total other income | 1,142,297 | 906,552 |
| Income/(loss) from continuing operations before income taxes | 392,574 | (886,227) |
| Income tax expense | 14,352 | 2,750 |
| Net income/(loss) from continuing operations | 378,222 | (888,977) |
| Discontinued operations: | | |
| Income from discontinued operations net of tax expense of \$0 and \$0, respectively | 4,975 | 4,975 |
| Net income from discontinued operations | 4,975 | 4,975 |
| Net income/(loss) | \$383,197 | \$(884,002) |
| Net income/(loss) per share from continuing operations - Basic | \$0.05 | \$(0.12) |
| Net income per share from discontinued operations - Basic | 0.00 | 0.00 |
| Net income/(loss) per share - Basic | \$0.05 | \$(0.12) |
| Net income/(loss) per share from continuing operations - Diluted | \$0.05 | \$(0.12) |
| Net income per share from discontinued operations - Diluted | 0.00 | 0.00 |
| Net income/(loss) per share - Diluted | \$0.05 | \$(0.12) |
| Weighted average shares - Basic | 7,361,555 | 7,182,866 |

| | | |
|-----------------------------------|-----------|-----------|
| Weighted average shares - Diluted | 7,644,434 | 7,182,866 |
|-----------------------------------|-----------|-----------|

See Accompanying Notes to Consolidated Financial Statements.

MISONIX, INC. and Subsidiaries**Consolidated Statement of Stockholders' Equity****(Unaudited)****For the three months ended September 30, 2014**

| | Common Stock, \$.01 Par Value | | Treasury Stock | | Additional paid-in capital | Accumulated deficit | Total stockholders' equity |
|--|----------------------------------|----------|------------------------|-------------|----------------------------------|------------------------|----------------------------------|
| | Number of shares | Amount | Number of shares | Amount | | | |
| Balance, June 30, 2014 | 7,412,096 | \$74,121 | (77,560) | \$(410,993) | \$28,169,622 | \$(11,480,386) | \$16,352,364 |
| Net income/comprehensive income | - | - | - | - | - | 383,197 | 383,197 |
| Proceeds from exercise of stock options | 177,679 | 1,777 | (20,353) | (222,052) | 290,100 | - | 69,825 |
| Stock-based compensation | - | - | - | - | 213,996 | - | 213,996 |
| Balance, September 30, 2014 | 7,589,775 | \$75,898 | (97,913) | \$(633,045) | \$28,673,718 | \$(11,097,189) | \$17,019,382 |

See Accompanying Notes to Consolidated Financial Statements.

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

| | For the three months ended September 30, | |
|--|---|---------------|
| | 2014 | 2013 |
| Operating activities | | |
| Net income/(loss) from continuing operations | \$ 378,222 | \$ (888,977) |
| Adjustments to reconcile net income/(loss) to net cash provided by/(used in) by continuing operating activities: | | |
| Depreciation and amortization and other non-cash items | 324,188 | 231,271 |
| Bad debt expense | 10,000 | 15,000 |
| Stock-based compensation | 213,996 | 143,944 |
| Deferred income | (15,592) | (15,051) |
| Deferred lease liability | (4,153) | (1,799) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 443,407 | 160,305 |
| Inventories | (517,286) | (146,590) |
| Prepaid expenses and other assets | 76,271 | 117,120 |
| Accounts payable, accrued expenses and other non-cash items | (361,821) | (855,675) |
| Net cash provided by/(used in) continuing operating activities | 547,232 | (1,240,452) |
| Investing activities | | |
| Acquisition of property, plant and equipment | (35,323) | (5,925) |
| Additional patents | (28,778) | (28,427) |
| Net cash used in investing activities | (64,101) | (34,352) |
| Financing activities | | |
| Proceeds from exercise of stock options | 69,825 | 116,905 |
| Net cash provided by financing activities | 69,825 | 116,905 |
| Cash flows from discontinued operations | | |
| Net cash provided by operating activities | 4,975 | 4,975 |
| Net cash provided by discontinued operations | 4,975 | 4,975 |
| Net increase/(decrease) in cash and cash equivalents | 557,931 | (1,152,924) |
| Cash and cash equivalents at beginning of period | 7,039,938 | 5,806,437 |
| Cash and cash equivalents at end of period | \$ 7,597,869 | \$ 4,653,513 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Income taxes | \$ 35,794 | \$ 856 |

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, 2014 (“2014 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 2014 Annual Report. There have been no changes in the Company’s significant accounting policies subsequent to June 30, 2014.

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, | |
|-------------------|----------------------------------|--------------|
| | 2014 | 2013 |
| United States | \$ 2,145,381 | \$ 1,581,270 |
| Australia | 123,448 | 43,340 |
| Europe | 613,505 | 383,590 |
| Asia | 894,257 | 466,267 |
| Canada and Mexico | 137,720 | 84,705 |
| South America | 325,242 | 275,621 |
| South Africa | 86,587 | 93,576 |
| Middle East | 213,197 | 147,215 |
| | \$ 4,539,337 | \$ 3,075,584 |

Discontinued Operations

Laboratory and Forensic Safety Products Business

On October 19, 2011, Misonix sold its Laboratory 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. The earn-out will not be factored into the gain on sale until it is earned by Misonix. As of September 30, 2014, there has been no earn-out recorded. The earn-out period ended October 19, 2014.

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, now SonaCare, Misonix will receive up to approximately \$5.8 million, paid out of an earn-out of 7% of gross revenues received from the sales of the prostate product in Europe and kidney and liver products around the world by SonaCare 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 \$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. Cumulative payments through September 30, 2014 were \$754,788.

Results of Discontinued Operations

| | For the three months ended September 30, | |
|---|--|---------|
| | 2014 | 2013 |
| Revenues | \$4,975 | \$4,975 |
| Income from discontinued operations, before tax | \$4,975 | \$4,975 |
| Income tax expense | - | - |
| Net income from discontinued operations, net of tax | \$4,975 | \$4,975 |

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.

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 (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, | |
|----------------------------------|---|-----------|
| | 2014 | 2013 |
| Basic shares | 7,361,555 | 7,182,866 |
| Dilutive effect of stock options | 282,879 | - |
| Diluted shares | 7,644,434 | 7,182,886 |

Excluded from the calculations of diluted EPS are options to purchase 302,000 shares of common stock for the three months ended September 30, 2014. The excluded shares are any share for which the average stock price for the period 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 Income/(Loss)

Total comprehensive income/(loss) was \$383,197 and (\$884,002) for the three months ended September 30, 2014 and 2013, respectively. There are no components of comprehensive income/(loss) other than net income/(loss) for all periods presented.

4. Stock-Based Compensation

Stock options are granted with exercise prices not less than the fair market value of our common stock at the time of the grant, with an exercise term (as determined by the committee administering the applicable option plan (the “Committee”)) not to exceed 10 years. The Committee determines the vesting period for the Company’s stock options. Generally, such stock options have vesting periods of 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, 2014 and 2013, the Company granted options to purchase 277,000 and 249,000 shares of the Company’s common stock, respectively.

Stock-based compensation expense for the three month periods ended September 30, 2014 and 2013 was approximately \$214,000 and \$144,000, 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, 2014, there was approximately \$3,126,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 3.3 years.

Cash in the amount of \$69,825 was received from the exercise of stock options for the three months ended September 30, 2014. Shares surrendered to treasury stock in a cashless exercise transaction totaled 20,353 for the three months ended September 30, 2014. Options surrendered and cancelled in cashless stock option exercises totaled 107,316 for the three months ended September 30, 2014.

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

(Unaudited)

The fair values of the options granted during the three months ended September 30, 2014 and 2013 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, | | | |
|--|---|---|---------|---|
| | 2014 | | 2013 | |
| Risk-free interest rate | 1.32 | % | 3.3 | % |
| Expected option life in years | 6.5 | | 6.5 | |
| Expected stock price volatility | 75.0 | % | 76.1 | % |
| Expected dividend yield | 0.0 | % | 0.0 | % |
| Weighted-average fair value of options granted | \$ 5.95 | | \$ 3.76 | |

The expected option term is based upon the number of years the Company estimates the option will be outstanding 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 anticipate declaring any in the future.

Changes in outstanding stock options during the three months ended September 30, 2014 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, 2014 | 1,663,329 | 3.88 | | |
| Granted | 277,000 | 7.67 | | |
| Exercised | (287,938) | 4.42 | | \$ 839,024 |
| Forfeited | - | - | | |

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| | | | | |
|--|-----------|------|-----|--------------|
| Expired | (28,000) | 8.00 | | |
| Outstanding as of September 30, 2014 | 1,624,391 | 4.36 | 6.3 | \$12,446,944 |
| Exercisable and vested at September 30, 2014 | 857,493 | 3.29 | 5.2 | \$7,489,637 |
| Available for grant as of September 30, 2014 | 287,475 | | | |

Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying stock, (a) based on the respective market prices at September 30, 2014 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, 2014, the Company recorded an income tax expense from continuing operations of \$14,352.

For the three months ended September 30, 2014 and 2013, the effective rate of (4%) and 0%, respectively, 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 on realizability is unchanged as of September 30, 2014, but is currently utilizing the valuation allowance against tax expense when the Company records net income.

As of September 30, 2014 and June 30, 2014, the Company has no material unrecognized tax benefits or accrued interest and penalties.

6. Inventories

Inventories are summarized as follows:

| | September 30, 2014 | June 30, 2014 |
|-----------------|-----------------------|------------------|
| Raw material | \$ 2,202,934 | \$ 1,820,046 |
| Work-in-process | 614,022 | 410,827 |
| Finished goods | 3,076,654 | 3,337,568 |

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| | | |
|------------------------|--------------|-------------|
| | 5,893,610 | 5,568,441 |
| Less valuation reserve | 1,359,201 | 1,351,091 |
| | \$ 4,534,409 | \$4,217,350 |

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

| | September 30, 2014 | June 30, 2014 |
|-------------------------------------|-----------------------|------------------|
| Accrued payroll and vacation | \$ 463,919 | \$460,341 |
| Accrued bonuses | 75,000 | 250,000 |
| Accrued commissions | 368,635 | 340,462 |
| Accrued professional and legal fees | 88,960 | 85,832 |
| Deferred income | 104,187 | 102,453 |
| Other | 205,133 | 218,162 |
| | \$ 1,305,834 | \$1,457,250 |

MISONIX, INC. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

8. Commitments and Contingencies

Employment Agreement

On July 1, 2014 the Company entered into a new Employment Agreement with Michael A. McManus, Jr., whereby he will continue to serve as the Company's President and Chief Executive Officer (the "Agreement"). The Agreement has an initial term expiring June 30, 2015 and renews for successive one-year periods thereafter unless terminated by either party not less than ninety (90) days prior to the end of the then-current term. The Agreement provides for an annual base salary of \$299,000, and an annual bonus based on Mr. McManus' achievement of annual goals and objectives as determined by the Compensation Committee of the Company's Board of Directors.

Mr. McManus is entitled under the Agreement to participate in any plans and programs made available to the executive employees of the Company generally.

The Company can terminate the Agreement for cause (as defined in the Agreement). Mr. McManus can terminate the Agreement for Good Reason (as defined in the Agreement). If Mr. McManus terminates the Agreement for Good Reason, the Company must pay him an amount equal to two times his total compensation (annual base salary plus bonus) at the highest rate paid him at any time during the aggregate time he has been employed by the Company, payable in a lump sum within sixty (60) days of termination of employment.

Mr. McManus is entitled to severance pay and benefits if he terminates his employment with the Company following a Change in Control (as defined in the Agreement), to provide him with an incentive to remain with the Company and consummate a strategic corporate sale or transaction that maximizes shareholder value. Severance pay and benefits are triggered upon (i) his Involuntary Termination without Cause (as defined in the Agreement) for a reason other than death or Disability (as defined in the Agreement) or (ii) as a result of a Constructive Termination (as defined in the Agreement) which in either case occurs: (x) during the period not to exceed twenty-four (24) months after the effective date of a Change in Control, or (y) before the effective date of a Change in Control, but after the first date on which the Board of Directors and/or senior management of the Company has entered into formal negotiations with a potential acquirer that results in the consummation of a Change in Control.

In the event that pay and benefits are triggered, Mr. McManus (A) is entitled to receive severance pay in an amount equal to two (2) times the sum of (a) his annual base pay and (b) bonus at the highest rate paid him for any fiscal year during the aggregate period of his employment by the Company, payable in cash in a lump sum; the payment of premiums for medical, dental, vision, hospitalization and long term care coverage under Company plans for a period of twenty-four (24) months; (B) has the right, for a period of (i) ninety (90) days for stock options granted under any of the Company's Employee Stock Option Plans adopted prior to 2005 and (ii) two (2) years for stock options granted under the Company's 2005 Employee Equity Incentive Plan, 2009 Employee Equity Incentive Plan, 2012 Employee Equity Incentive Plan and any Plan adopted after the effective date of the Agreement following his Termination Date (as defined in the Agreement), to exercise the options to the extent such options are otherwise vested and exercisable as of the Termination Date under the terms of the applicable stock option agreement(s) and Plan(s); and (C) will vest in all unvested stock option grants with respect to options granted after July 1, 2012.

Mr. McManus has also agreed in the Agreement to an eighteen (18) month post-termination covenant not-to-compete, as well as other customary covenants concerning non-solicitation and non-disclosure of confidential information of the Company.

The Company and Mr. McManus had previously entered into two letter agreements (the "Letter Agreements") providing for the exercise of vested options by Mr. McManus (i) for a ninety (90) day period after his retirement with respect to stock options granted under certain of the Company's stock option plans and (ii) for two (2) years after Mr. McManus terminates his employment with the Company in the event of a Change-in-Control (as defined in the applicable stock option plans) and he is eligible for the severance benefits provided for by the Agreement. The Company and Mr. McManus have entered into a letter agreement which makes clear that the terms and conditions of the Letter Agreements continue to be in full force and effect and apply to the Agreement.

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.

MISONIX, INC. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

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.

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 was made through cost of goods sold in the quarter ended December 31, 2013 as a result of the Settlement Agreement. There are no further commitments to Puricore.

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, 2014 and June 30, 2014:

| September 30, 2014 | Carrying Amount | Fair Value |
|---------------------------|-----------------|-------------|
| Cash and cash equivalents | \$7,597,869 | \$7,597,869 |
| Trade accounts receivable | 3,305,745 | 3,305,745 |
| Trade accounts payable | 1,433,715 | 1,433,715 |

| June 30, 2014 | Carrying Amount | Fair Value |
|---------------------------|-----------------|-------------|
| Cash and cash equivalents | \$ 7,039,938 | \$7,039,938 |
| Trade accounts receivable | 3,759,152 | 3,759,152 |
| Trade accounts payable | 1,650,323 | 1,650,323 |

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.

MISONIX, INC. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

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, 2014, 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, 2014 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 \$560,815 and \$611,355 at September 30, 2014 and June 30, 2014, respectively. Accumulated amortization totaled \$661,535 and \$641,469 at September 30, 2014 and June 30, 2014, respectively. Amortization expense for the three month periods ended September 30, 2014 and 2013 was approximately \$79,000 and \$19,000, respectively.

Net customer relationships reported in intangible and other assets totaled \$160,000 and \$200,000 at September 30, 2014 and June 30, 2014, respectively. Accumulated amortization amounted to \$640,000 at September 30, 2014 and \$600,000 at June 30, 2014. Amortization expense for September 30, 2014 and 2013 was \$40,000.

The following is a schedule of estimated future amortization expense as of September 30, 2014:

| | Patents | Customer Relationships |
|------|----------|------------------------|
| 2015 | \$60,335 | \$ 120,000 |

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| | | |
|------------|-----------|------------|
| 2016 | 76,433 | 40,000 |
| 2017 | 74,268 | - |
| 2018 | 70,954 | - |
| 2019 | 64,497 | - |
| Thereafter | 214,328 | - |
| | \$560,815 | \$ 160,000 |

11. Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, “Presentation of Financial Statements (Topic 205)” and “Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” The amendments in the ASU change the criteria for reporting discontinued operations while enhancing related disclosures. The amendments in the ASU are effective in the first quarter of 2015. The adoption of ASU 2014-08 did not have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The new revenue recognition standard provides a five-step analysis to determine when and how revenue is recognized. The standard requires that a company recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2016 and will be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements.

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

(Unaudited)

12. Related Party Transactions

Stavros G. Vizirgianakis was appointed to the Board of Directors on May 7, 2013. During the fiscal year ended June 30, 2014, Mr. Vizirgianakis owned (i) a controlling interest in MD Solutions Australasia PTY Ltd. ("MD Solutions") and (ii) an interest in Surgical Innovations ("SI"). MD is an independent distributor for the Company outside of the United States. Applied BioSurgical, a company owned by Mr. Vizirgianakis' father, is an independent distributor for the Company outside of the United States. SI purchased certain of the Company's products from Applied BioSurgical during the fiscal year ended June 30, 2014. Mr. Vizirgianakis disposed of his interest in each of MD Solutions and SI during the fiscal year ended June 30, 2014.

Set forth below is a table showing the Company's net sales and accounts receivable for the indicated time periods below with Applied BioSurgical and MD Solutions:

For the three months ended September 30,

| Applied BioSurgical | 2013 | 2014 |
|---------------------|----------|----------|
| Sales | \$93,576 | \$86,587 |
| Accounts receivable | 113,421 | 63,193 |

| MD Solutions Australasia PTY Ltd. | 2013 |
|--------------------------------------|----------|
| Sales | \$43,340 |
| Accounts receivable | 43,340 |

13. Licensing Agreements for Medical Technology

In October 1996, the Company entered into a License Agreement (the "USS License") with United States Surgical (now, Covidien) for a twenty-year period, expiring October 2016, covering the further development and commercial

exploitation of the Company's medical technology relating to laparoscopic products, which uses high frequency sound waves to coagulate and divide tissue for both open and laparoscopic surgery.

The USS License gives Covidien exclusive worldwide marketing and sales rights for this technology. Under the USS License, the Company has received \$475,000 in licensing fees (which are being recorded as income over the term of the USS License), plus royalties based upon net sales of AutoSonix products. Total royalties from sales of this device were approximately \$1,121,000 and \$885,000 for the three months ended September 30, 2014 and 2013, respectively.

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 15, 2014, for the fiscal year ended June 30, 2014 ("2014 Form 10-K"). Item 7 of the 2014 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of September 30, 2014.

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, 2014 and 2013

Net sales: Net sales increased 48% or \$1,463,753 to \$4,539,337 for the three months ended September 30, 2014 from \$3,075,584 for the three months ended September 30, 2013. The increase in sales is due to higher BoneScalpel™ sales of \$858,333, higher SonicOne® sales of \$131,724 and higher SonaStar® sales of \$387,814 and higher other revenue of \$85,882. There were eighteen BoneScalpel units consigned in the United States during the three month period ended September 30, 2014 compared to twelve BoneScalpel units consigned for the same period in fiscal 2013.

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, 2014 and 2013:

Three months ended September 30,

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| | 2014 | 2013 | Variance |
|-------------|-------------|-------------|-------------|
| BoneScalpel | \$2,206,921 | \$1,348,588 | \$858,333 |
| SonicOne | 600,687 | 468,963 | 131,724 |
| SonaStar | 1,523,524 | 1,135,710 | 387,814 |
| Other | 208,205 | 122,323 | 85,882 |
| | \$4,539,337 | \$3,075,584 | \$1,463,753 |

| | Three months ended September 30, | |
|-------------------|----------------------------------|--------------|
| | 2014 | 2013 |
| United States | \$ 2,145,381 | \$ 1,581,270 |
| Australia | 123,448 | 43,340 |
| Europe | 613,505 | 383,590 |
| Asia | 894,257 | 466,267 |
| Canada and Mexico | 137,720 | 84,705 |
| South America | 325,242 | 275,621 |
| South Africa | 86,587 | 93,576 |
| Middle East | 213,197 | 147,215 |
| | \$ 4,539,337 | \$ 3,075,584 |

Gross profit: Gross profit increased 65.1% for the three months ended September 30, 2014 from 56.3% for the three months ended September 30, 2013, an increase of 8.8%. The increase is primarily related to higher sales volume for the period ended September 30, 2014 as compared to the period ended September 30, 2013 which resulted in lower gross margins due to not adequately covering fixed expenses.

Selling expenses: Selling expenses increased \$190,456 to \$2,019,286 for the three months ended September 30, 2014 from \$1,828,830 for the three months ended September 30, 2013. The increase is primarily related to higher sales commission expenses of \$241,819 and higher training expenses of \$23,534, partially offset by lower advertising expenses of \$70,730 and lower other expenses of \$4,167.

General and administrative expenses: General and administrative expenses increased \$24,763 to \$1,246,078 for the three months ended September 30, 2014 from \$1,221,315 for the three months ended September 30, 2013. The increase is related to non-cash compensation from issuance of stock options of \$70,052, partially offset by lower legal expenses of \$39,839 and lower other expenses of \$5,450.

Research and development expenses: Research and development expenses decreased \$35,297 to \$437,591 for the three months ended September 30, 2014 from \$472,888 for the three months ended September 30, 2013. The decrease in these expenses is primarily due to lower temporary help expenses of \$16,076, lower consulting expenses of \$7,498, lower legal expenses of \$5,991 due to patent billings and lower other expenses of \$5,732.

Other income (expense): Other income for the three months ended September 30, 2014 was \$1,142,297 as compared to \$906,552 for the three months ended September 30, 2013. The increase in the other income is primarily due to higher royalty income of \$235,157 from Covidien plc.

Income taxes: For the three months ended September 30, 2014, the Company recorded an effective tax rate of 4%, compared to 0% for the three months ended September 30, 2013. 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.

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 September 30, | |
|---|---|----------|
| | 2014 | 2013 |
| Revenues | \$ 4,975 | \$ 4,975 |
| Income from discontinued operations, before tax | \$ 4,975 | \$ 4,975 |
| Income tax expense | - | - |
| Net income from discontinued operations, net of tax | \$ 4,975 | \$ 4,975 |

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, 2014 and June 30, 2014 was \$12,999,000 and \$12,277,000, respectively. For the three months ended September 30, 2014, cash provided by operations totaled \$547,232, primarily related to higher net income. For the three months ended September 30, 2014, cash used in investing activities was \$64,101 and is related to the acquisition of additional fixed assets and patent filings. For the three months ended September 30, 2014, cash provided by financing activities was \$69,825 from the exercise of stock options. For the three months ended September 30, 2014, 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

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 cash and cash equivalents.

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, 2014 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, 2014 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 2014 Form 10-K. There have been no material changes from the risk factors disclosed in that Form 10-K.

Item 5. Other Information

(a) The 2014 Annual Meeting of Shareholders of the Company (the “Meeting”) will be held February 3, 2015. The date of the Meeting is more than thirty (30) days later than the date of the 2013 Annual Meeting of Shareholders of the Company, which meeting was held on December 3, 2013.

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 6, 2014

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