MISONIX INC
Form 10-Q
May 10, 2007

**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _______ to ________.

Commission file number: 1-10986

MISONIX, INC.
(Exact name of registrant as specified in its charter)

| New York (State or other jurisdiction of incorporation or organization) | 11-2148932 (I.R.S. Employer Identification No.) |
|---|---|
| 1938 New Highway, Farmingdale, NY (Address of principal executive offices) | 11735 (Zip Code) |

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

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

Yes x No o

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

Large accelerated filer o  Accelerated filer o Non-accelerated filer x

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

Yes o No  x

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

| Class of Common Stock | Outstanding at May 10, 2007 |
|---|---|
| Common Stock, $.01 par value | 7,001,369 |

**MISONIX, INC.**

**INDEX**


| | | Page |
|---|---|---|
| **Part I - FINANCIAL INFORMATION** | | |
| **Item 1.** | **Financial Statements**: | |
| | Consolidated Balance Sheets as of March 31, 2007 (Unaudited) and June 30, 2006 | 3 |
| | Consolidated Statements of Operations Nine months ended March 31, 2007 and 2006 (Unaudited) | 4 |
| | Consolidated Statements of Operations Three months ended March 31, 2007 and 2006 (Unaudited) | 5 |
| | Consolidated Statement of Stockholders' Equity Nine months ended March 31, 2007 (Unaudited) | 6 |
| | Consolidated Statements of Cash Flows Nine months ended March 31, 2007 and 2006 (Unaudited) | 7 |
| | Notes to Consolidated Financial Statements | 8 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 17 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 23 |
| Item 4. | Controls and Procedures | 23 |
| **Part II - OTHER INFORMATION** | | |
| Item 1A. | Risk Factors | 24 |
| Item 6. | Exhibits | 24 |
| Signatures | | 25 |

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.

**MISONIX, INC.**
**CONSOLIDATED BALANCE SHEETS**

| **Assets** | **March 31, 2007 (Unaudited)** | June 30, 2006 (Derived from audited Financial Statements) |
|---|---|---|
| Current assets: | | |
| Cash | **$ 866,998** | $ 675,400 |
| Accounts receivable, less allowance for doubtful accounts of $297,068 and $256,309, respectively | **8,026,369** | 6,530,598 |
| Inventories, net | **12,202,456** | 11,307,226 |
| Income tax receivable | **—** | 786,654 |
| Deferred income taxes | **1,346,654** | 1,419,949 |
| Prepaid expenses and other current assets | **1,318,341** | 1,070,903 |
| Total current assets | **23,760,818** | 21,790,730 |
| | | |
| Property, plant and equipment, net | **6,204,878** | 6,495,854 |
| Deferred income taxes | **1,859,431** | 1,039,824 |
| Goodwill | **4,718,689** | 4,673,713 |
| Other assets | **1,222,216** | 512,444 |
| Total assets | **$ 37,766,032** | $ 34,512,565 |
| | | |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Revolving credit facilities and note payable | **5,034,828** | 1,572,042 |
| Accounts payable | **4,774,760** | 4,784,102 |
| Accrued expenses and other current liabilities | **3,325,190** | 2,963,762 |
| Foreign income taxes payable | **78,635** | — |
| Current maturities of long-term debt and capital lease obligations | **341,207** | 367,823 |
| Total current liabilities | **13,554,620** | 9,687,729 |
| | | |
| Long-term debt and capital lease obligations | **1,104,613** | 1,145,279 |
| Deferred lease liability | **395,822** | 378,031 |
| Deferred income taxes | **282,455** | 282,455 |
| Deferred income | **347,622** | 422,634 |
| Total liabilities | **15,685,132** | 11,916,128 |
| | | |
| Commitments and contingencies | | |
| | | |
| Minority interest | **330,906** | 341,631 |
| | | |
| Stockholders' equity: | | |
| Common stock, $.01 par value—shares authorized 10,000,000; and 7,079,169 and 6,978,169 issued, and 7,001,369 and 6,900,369 outstanding, respectively | **70,792** | 69,782 |

| | | | | |
|---|---|---|---|---|
| Additional paid-in capital | | **24,822,437** | | 24,548,536 |
| Accumulated deficit | | **(3,206,169)** | | (2,158,271) |
| Accumulated other comprehensive income | | **475,358** | | 207,183 |
| Treasury stock, 77,800 shares | | **(412,424)** | | (412,424) |
| Total stockholders’ equity | | **21,749,994** | | 22,254,806 |
| | | | | |
| Total liabilities and stockholders’ equity | **$** | **37,766,032** | $ | 34,512,565 |

*See Accompanying Notes to Consolidated Financial Statements.*

3

**MISONIX, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | For the nine months ended March 31, 2007 | 2006 |
|---|---|---|
| Net sales | $ **30,865,888** | $ 29,549,736 |
| Cost of goods sold | **17,687,270** | 18,296,682 |
| Gross profit | **13,178,618** | 11,253,054 |
| | | |
| Operating expenses: | | |
| Selling expenses | **5,524,786** | 5,014,110 |
| General and administrative expenses | **7,321,668** | 7,528,168 |
| Research and development expenses | **2,383,903** | 2,739,043 |
| Total operating expenses | **15,230,357** | 15,281,321 |
| Loss from operations | **(2,051,739)** | (4,028,267) |
| | | |
| Other income (expense): | | |
| Interest income | **53,225** | 65,857 |
| Interest expense | **(357,075)** | (168,629) |
| Royalty income and license fees net of royalty expense of $16,928 and $75,775, respectively | **655,335** | 571,769 |
| Other | **4,857** | (10,663) |
| Total other income | **356,342** | 458,334 |
| | | |
| Loss before minority interest and income taxes | **(1,695,397)** | (3,569,933) |
| | | |
| Minority interest in net (loss) income of consolidated subsidiaries | **(12,819)** | 12,659 |
| | | |
| Loss before income taxes | **(1,682,578)** | (3,582,592) |
| | | |
| Income tax benefit | **(634,680)** | (941,006) |
| | | |
| Net loss | **($1,047,898)** | ($2,641,586) |
| | | |
| Net loss per share - Basic | **($.15)** | ($.39) |
| | | |
| Net loss per share - Diluted | **($.15)** | ($.39) |
| | | |
| Weighted average common shares outstanding - Basic | **6,923,044** | 6,857,924 |
| | | |
| Weighted average common shares outstanding - Diluted | **6,923,044** | 6,857,924 |

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | For the three months ended March 31, 2007 | 2006 |
|---|---|---|
| Net sales | **$ 10,583,924** | $ 10,169,778 |
| Cost of goods sold | **6,123,927** | 6,216,776 |
| Gross profit | **4,459,997** | 3,953,002 |
| | | |
| Operating expenses: | | |
| Selling expenses | **2,003,430** | 1,765,639 |
| General and administrative expenses | **2,614,237** | 2,502,626 |
| Research and development expenses | **735,518** | 975,307 |
| Total operating expenses | **5,353,185** | 5,243,572 |
| Loss from operations | **(893,188)** | (1,290,570) |
| | | |
| Other income (expense): | | |
| Interest income | **11,111** | 17,742 |
| Interest expense | **(130,582)** | (54,019) |
| Royalty income and license fees net of royalty expense of $5,577 and $38,376, respectively | **208,211** | 177,702 |
| Other | **(7,473)** | 2,718 |
| Total other income | **81,267** | 144,143 |
| | | |
| Loss before minority interest and income taxes | **(811,921)** | (1,146,427) |
| | | |
| Minority interest in net loss of consolidated subsidiaries | **(38,318)** | (6,465) |
| | | |
| Loss before income taxes | **(773,603)** | (1,139,962) |
| | | |
| Income tax benefit | **(244,567)** | (310,844) |
| | | |
| Net loss | **($529,036)** | ($829,118) |
| | | |
| Net loss per share - Basic | **($.08)** | ($.12) |
| | | |
| Net loss per share - Diluted | **($.08)** | ($.12) |
| | | |
| Weighted average common shares outstanding - Basic | **6,962,802** | 6,884,169 |
| | | |
| Weighted average common shares outstanding - Diluted | **6,962,802** | 6,884,169 |

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC.**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**
**(UNAUDITED)**

| | Common Stock, $.01 Par Value | | Treasury Shares | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income | Total stockholders' equity |
| Balance, June 30, 2006 | 6,978,169 | $ 69,782 | (77,800) | ($412,424) | $ 24,548,536 | ($2,158,271) | $ 207,183 | $ 22,254,806 |
| Net Loss | | | | | | (1,047,898) | | (1,047,898) |
| Foreign currency translation adjustment | | | | | | | 268,175 | 268,175 |
| Comprehensive loss | | | | | | | | (779,723) |
| Exercise of employee stock options | 101,000 | 1,010 | | | 133,560 | | | 134,570 |
| Stock-based compensation | | | | | 140,341 | | | 140,341 |
| Balance, March 31, 2007 | 7,079,169 | $ 70,792 | (77,800) | ($412,424) | $ 24,822,437 | ($3,206,169) | $ 475,358 | $ 21,749,994 |

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | For the nine months ended March 31, | |
|---|---|---|
| | **2007** | 2006 |
| **Operating activities** | | |
| Net loss | **($1,047,898)** | ($2,641,586) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization and other non cash items | **1,467,533** | 941,681 |
| Bad debt expense | **81,807** | 209,084 |
| Deferred income tax benefit | **(739,076)** | (169,554) |
| Loss on disposal of equipment | **117,054** | 141,857 |
| Minority interest in net (loss) income of subsidiaries | **(12,819)** | 12,659 |
| Stock-based compensation | **140,341** | 440,060 |
| Deferred income | **(75,013)** | (135,160) |
| Deferred leasehold costs | **17,791** | — |
| Other | **—** | 6,131 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(1,369,184)** | 4,166,860 |
| Inventories | **(847,951)** | (1,633,752) |
| Income tax receivable | **826,813** | (771,716) |
| Prepaid expenses and other current assets | **(174,766)** | (141,308) |
| Other assets | **(803,461)** | (98,064) |
| Accounts payable and accrued expenses | **(40,726)** | (1,103,353) |
| Foreign income taxes payable | **39,894** | — |
| Net cash used in operating activities | **(2,419,661)** | (776,161) |
| | | |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(559,279)** | (737,690) |
| Net cash used in investing activities | **(559,279)** | (737,690) |
| | | |
| **Financing activities** | | |
| Proceeds from short-term borrowings | **5,648,062** | 672,746 |
| Payments of short-term borrowings | **(2,302,175)** | (1,008,686) |
| Principal payments on capital lease obligations | **(273,066)** | (325,087) |
| Proceeds from exercise of stock options | **134,570** | 381,511 |
| Income tax benefit - stock options | **—** | (39,841) |
| Payments of long-term debt | **(44,556)** | (44,039) |
| Net cash provided by (used in) financing activities | **3,162,835** | (363,396) |
| | | |
| Effect of exchange rate changes on cash | **7,703** | (1,132) |
| Net increase (decrease) in cash | **191,598** | (1,878,379) |
| Cash at beginning of period | **675,400** | 2,484,534 |
| Cash at end of period | **$ 866,998** | $ 606,155 |
| | | |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for: | | |

| | | | | |
|---|---|---|---|---|
| Interest | **$** | **330,621** | $ | 168,629 |
| Income taxes (refunds of $785,097, net of payments of $22,788 in 2007) | | **($762,309)** | $ | 40,804 |
| **Supplemental disclosure of non cash investing and financing activities:** | | | | |
| Capital lease additions | **$** | **133,146** | $ | 319,657 |
| Inventory transferred to property, plant and equipment | **$** | **413,567** | | — |

*See Accompanying Notes to Consolidated Financial Statements.*

7

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

1. Basis of Presentation

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. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine and three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007 or any interim period therein.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

2. Net Loss Per Share

Basic loss per share excludes any dilution. It is based on the weighted average number of shares outstanding during the period. Dilutive loss per share reflects the potential dilution that would occur if options to purchase common stock were exercised. For the nine and three month periods ended March 31, 2007 and 2006, dilutive weighted average common shares outstanding of 66,633, 78,180, 214,165 and 138,018, respectively, were excluded from the diluted loss per share calculation since the effect of including these options would have been anti-dilutive.

3. Comprehensive Loss

Total comprehensive loss was $779,723 and $547,901 for the nine and three months ended March 31, 2007 and $2,717,963 and $817,166 for the nine and three months ended March 31, 2006, respectively. The components of comprehensive loss are net loss and foreign currency translation adjustments.

4. Stock-Based Compensation

The Company adopted the fair-value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004) Share-Based Payment ("SFAS 123R") effective July 1, 2005. Compensation cost recognized in the nine and three month periods ended March 31, 2007 and 2006 include compensation cost for all stock-based compensation granted prior to, but not yet vested as of, July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), and compensation cost for all stock-based compensation granted subsequent to July 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

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 change of control. During the nine month periods ended March 31, 2007 and 2006, the Company granted options to purchase 127,400 and 89,560 shares of the Company's common stock, respectively.

As a result of adopting SFAS No. 123R, the Company recorded stock-based compensation expense for the nine month periods ended March 31, 2007 and 2006 of approximately $140,000 and $440,100, respectively. Stock-based compensation for the three month periods ended March 31, 2007 and 2006 was $40,000 and $66,000, 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 March 31, 2007, there was $433,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements to be recognized over a weighted-average period of 2.3 years.

The total cash received from the exercise of stock options was $134,570 and $381,511 for the nine month periods ended March 31, 2007 and 2006, respectively, and are classified as financing cash flows. SFAS No. 123R requires that cash flows from tax benefits attributable to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) be classified as financing cash flows.

The fair values of the options granted during the nine month periods ended March 31, 2007 and 2006 were estimated on the date of the grant using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions:

| | March 31, | |
|---|---|---|
| | **2007** | 2006 |
| Risk-free interest rate | **4.67%** | 4.43% |
| Expected life | **6 years** | 5.7 years |
| Expected volatility | **53.8%** | 54.7% |
| Expected dividend yield | **0%** | 0% |
| Weighted-average fair value of options granted | **$2.57** | $3.82 |

The expected life was based on historical exercises and terminations. The expected volatility for the periods with the expected life of the options is determined using historical volatilities based on historical stock prices. The expected dividend yield is 0% as the Company has historically not declared dividends and does not expect to declare any in the future.

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

Changes in outstanding options during the nine months ended March 31, 2007 were as follows:

| | Options | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (yrs.) | | Aggregate Intrinsic Value |
|---|---|---|---|---|---|---|
| Outstanding at June 30, 2006 | 1,837,973 | $ | 5.72 | 5.7 | | |
| Granted | 127,400 | | 4.61 | | | |
| Exercised | (101,000) | | 1.33 | | | |
| Forfeited | (28,277) | | 6.81 | | | |
| Expired | (7,500) | | 4.00 | | | |
| Outstanding at March 31, 2007 | 1,828,596 | $ | 5.88 | 5.7 | $ | 519,385 |
| Options vested and exercisable at March 31, 2007 | 1,634,163 | $ | 5.92 | 5.3 | $ | 419,825 |
| Options available for grant at March 31, 2007 | 672,823 | | | | | |

5. Inventories

Inventories are summarized as follows:

| | | **March 31, 2007** | | June 30, 2006 |
|---|---|---|---|---|
| Raw material | **$** | **6,338,758** | $ | 5,702,171 |
| Work-in-process | | **2,846,779** | | 2,250,826 |
| Finished goods | | **5,356,427** | | 5,456,684 |
| | | **14,541,964** | | 13,409,681 |
| Less valuation reserve | | **2,339,508** | | 2,102,455 |
| | **$** | **12,202,456** | $ | 11,307,226 |

6. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

| | | **March 31, 2007** | | June 30, 2006 |
|---|---|---|---|---|
| Customer deposits and current deferred contracts | **$** | **840,902** | $ | 870,760 |
| Accrued payroll and vacation | | **685,315** | | 549,933 |
| Accrued VAT and sales tax | | **213,226** | | 94,813 |
| Accrued commissions and bonuses | | **593,971** | | 446,165 |
| Accrued professional and legal fees | | **69,483** | | 208,650 |
| Litigation expense | | **419,000** | | 419,000 |
| Other | | **503,293** | | 374,441 |
| | **$** | **3,325,190** | $ | 2,963,762 |

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

7. Revolving Credit Facilities

On December 29, 2006, the Company and its subsidiaries, Acoustic Marketing Research, Inc. d/b/a Sonora Medical Systems ("Sonora") and Hearing Innovations Incorporated (collectively referred to as the "Borrowers") and Wells Fargo Bank entered into a (i) Credit and Security Agreement and a (ii) Credit and Security Agreement Export-Import Subfacility (collectively referred to as the "Credit Agreements"). The aggregate credit limit under the Credit Agreements is $8,000,000 consisting of a revolving facility in the amount of up to $8,000,000. Up to $1,000,000 of the revolving facility is available under the Export-Import Agreement as a subfacility for Export-Import working capital financing. All credit facilities under the Credit Agreements mature on December 29, 2009. Payment of amounts outstanding under the Credit Agreements may be accelerated upon the occurrence of an Event of Default (as defined in the Credit Agreements). All loans and advances under the Credit Agreements are secured by a first priority security interest in all of the Borrowers' accounts receivable, deposit accounts, property, plant and equipment, general intangibles, intellectual property, inventory, letter-of-credit rights, and all other business assets. The Borrowers have the right to terminate or reduce the credit facility prior to December 29, 2009 by paying a fee based on the aggregate credit limit (or reduction, as the case may be) as follows: (i) during year one of the Credit Agreements, 3%; (ii) during year two of the Credit Agreements, 2%; and (iii) during year three of the Credit Agreements, 1%.

The Credit Agreements contain financial covenants requiring that the Borrowers (i) on a consolidated basis not have a Net Loss (as defined in the Credit Agreements) of more than (a) $340,000 for the fiscal quarter ended March 31, 2007 and (b) $150,000 for the fiscal quarter ending June 30, 2007; and (ii) not incur or contract to incur Capital Expenditures (as defined in the Credit Agreements) of more than $1,000,000 in the aggregate in any fiscal year or more than $1,000,000 in any one transaction. At March 31, 2007, the Borrowers were in compliance with the financial covenants.

The available amount under the Credit Agreements is the lesser of $8,000,000 or the amount calculated under the Borrowing Base (as defined in the Credit Agreements). The Borrowers must maintain a minimum outstanding amount of $1,250,000 under the Credit Agreements at all times and pay a fee equal to the interest rate set forth on any such shortfall. Interest on amounts borrowed under the Credit Agreements is payable at Wells Fargo's prime rate of interest plus 1% per annum floating, payable monthly in arrears. The default rate of interest is 3% higher than the rate otherwise payable. A fee of 1/2 % per annum on the Unused Amount (as defined in the Credit Agreements) is payable monthly in arrears. At March 31, 2007, the balance outstanding under the Credit Agreements is $2,781,570.

Approximately $2,006,000 of the proceeds from the Credit Agreements was used to pay off the Company's outstanding revolving credit facility with the Bank of America and $629,000 was deposited with Bank of America to collateralize the Company's obligation with respect to an outstanding letter of credit.

Labcaire Systems Limited (“Labcaire”) has a debt purchase agreement with Lloyds TSB Commercial Finance (“Lloyds”). The amount of this facility bears interest at the bank’s base rate (5.25% at March 31, 2007 and March 31, 2006) plus 1.75% and a service charge of .15% of sales invoice value and fluctuates based upon the outstanding United Kingdom and European receivables. The agreement expired September 30, 2006, was extended until March 2007, and is currently being extended on a month to month basis. The agreement covers all United Kingdom and European sales. At March 31, 2007, the balance outstanding under this credit facility was $1,336,280 and Labcaire is not in violation of financial covenants.

Labcaire has an overdraft facility with Lloyds. The amount of this facility bears interest at Lloyds’ base rate of 5.25 % at March 31, 2007 plus 3.0%. The agreement expired September 30, 2006 and is currently being extended on a month to month basis while the Company and Lloyds are working on a longer extension. At March 31, 2007, the balance outstanding under this overdraft facility was $497,586 and Labcaire is not in violation of financial covenants.

## 8. Commitments and Contingencies

A jury in the District Court of Boulder County, Colorado has returned a verdict against Sonora in the amount of $419,000 which was recorded by the Company during the fourth quarter of fiscal 2005. The case involved royalties claimed on recoating of transesophogeal probes, which is a process performed by Sonora. Approximately 80% of the judgment was based on the jury’s estimate of royalties for potential sales of the product in the future. Sonora has moved for judgment notwithstanding the verdict based on, among other things, the award of damages for future royalties. Sonora has also moved for a new trial in the case.

The Company is a defendant in claims and lawsuits arising in the ordinary course of business. The Company believes that it has meritorious defenses to such claims and lawsuits and is vigorously contesting them. Although the outcome of litigation cannot be predicted with certainty, the Company believes that these actions will not have a material adverse effect on the Company’s consolidated financial position or results of operations.

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

9. Business Segments

The Company operates in two business segments which are organized by product types: medical device products and laboratory and scientific products. Medical device products include the Auto Sonix ultrasonic cutting and coagulatory system, the Sonoblate 500® (used to treat prostate cancer), refurbishing of high-performance ultrasound systems and replacement transducers for the medical diagnostic ultrasound industry, ultrasonic lithotriptor, ultrasonic neuroaspirator (used for neurosurgery) and soft tissue aspirator (used primarily for the cosmetic surgery market). Laboratory and scientific products include the Sonicator Ultrasonic liquid processor, Aura ductless fume enclosure, the Labcaire Isis and Guardian endoscope disinfectant systems and the Mystaire wet scrubber. The Company evaluates the performance of the segments based upon income from operations before general and administrative expenses. Certain items are maintained at the corporate headquarters (corporate) and are not allocated to the segments. They primarily include general and administrative expenses. General and administrative expenses at the Company’s Sonora, Labcaire, UKHIFU and Misonix Ltd. subsidiaries are included in corporate and unallocated amounts in the tables below. The Company does not allocate assets by segment. Summarized financial information for each of the segments is as follows:

For the nine months ended March 31, 2007:

| | Medical Device Products | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|---|---|---|---|---|
| Net sales | $ 17,082,915 | $ 13,782,973 | $ — | $ 30,865,888 |
| Cost of goods sold | 9,595,991 | 8,091,279 | — | 17,687,270 |
| Gross profit | 7,486,924 | 5,691,694 | — | 13,178,618 |
| Selling expenses | 3,701,453 | 1,823,333 | — | 5,524,786 |
| Research and development expenses | 1,503,853 | 880,050 | — | 2,383,903 |
| General and administrative | — | — | 7,321,668 | 7,321,668 |
| Total operating expenses | 5,205,306 | 2,703,383 | 7,321,668 | 15,230,357 |
| Income (loss) from operations | $ 2,281,618 | $ 2,988,311 | ($7,321,668) | ($2,051,739) |

For the three months ended March 31, 2007:

| | Medical Device Products | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|---|---|---|---|---|
| Net sales | $ 6,031,451 | $ 4,552,473 | $ — | $ 10,583,924 |
| Cost of goods sold | 3,415,415 | 2,708,512 | — | 6,123,927 |
| Gross profit | 2,616,036 | 1,843,961 | — | 4,459,997 |
| Selling expenses | 1,357,631 | 645,799 | — | 2,003,430 |
| Research and development expenses | 454,827 | 280,691 | — | 735,518 |
| General and administrative | — | — | 2,614,237 | 2,614,237 |
| Total operating expenses | 1,812,458 | 926,490 | 2,614,237 | 5,353,185 |
| Income (loss) from operations | $ 803,578 | $ 917,471 | ($2,614,237) | ($893,188) |

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

For the nine months ended March 31, 2006:

| | Medical Device Products | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|---|---|---|---|---|
| Net sales | $ 15,526,996 | $ 14,022,740 | $ — | $ 29,549,736 |
| Cost of goods sold | 8,967,482 | 9,329,200 | — | 18,296,682 |
| Gross profit | 6,559,514 | 4,693,540 | — | 11,253,054 |
| Selling expenses | 3,127,838 | 1,886,272 | — | 5,014,110 |
| Research and development expenses | 1,686,533 | 1,052,510 | — | 2,739,043 |
| General and administrative | — | — | 7,528,168 | 7,528,168 |
| Total operating expenses | 4,814,371 | 2,938,782 | 7,528,168 | 15,281,321 |
| Income (loss) from operations | $ 1,745,143 | $ 1,754,758 | ($7,528,168) | ($4,028,267) |

For the three months ended March 31, 2006:

| | Medical Device Products | Laboratory and Scientific Products | Corporate and Unallocated | Total |
|---|---|---|---|---|
| Net sales | $ 5,082,180 | $ 5,087,598 | $ — | $ 10,169,778 |
| Cost of goods sold | 2,856,373 | 3,360,403 | — | 6,216,776 |
| Gross profit | 2,225,807 | 1,727,195 | — | 3,953,002 |
| Selling expenses | 1,237,229 | 528,410 | — | 1,765,639 |
| Research and development expenses | 587,535 | 387,772 | — | 975,307 |
| General and administrative | — | — | 2,502,626 | 2,502,626 |
| Total operating expenses | 1,824,764 | 916,182 | 2,502,626 | 5,243,572 |
| Income (loss) from operations | $ 401,043 | $ 811,013 | ($2,502,626) | ($1,290,570) |

The Company’s sales are generated from various geographic regions. The following is an analysis of net sales for the nine months and three months ended March 31, 2007 and 2006:

| | Nine Months | | Three Months | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| United States | **$ 17,913,069** | $ 18,629,700 | **$ 5,988,210** | $ 5,978,889 |
| United Kingdom | **8,275,812** | 6,915,710 | **2,835,142** | 2,612,004 |
| Europe | **2,536,617** | 1,748,641 | **843,923** | 608,701 |
| Asia | **1,394,017** | 1,031,670 | **640,683** | 433,279 |
| Canada and Mexico | **331,296** | 515,986 | **149,163** | 280,221 |
| Middle East | **87,413** | 268,640 | **31,176** | 138,085 |
| Other | **327,664** | 439,389 | **95,627** | 118,599 |
| | **$ 30,865,888** | $ 29,549,736 | **$ 10,583,924** | $ 10,169,778 |

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

10. Effects of Recently Issued Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 156, "Accounting for Servicing of Financial Assets" ("SFAS 156"), an amendment of SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". SFAS 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to subsequently measure those servicing assets and servicing liabilities at fair value. SFAS 156 is effective for fiscal years beginning after September 15, 2006. The Company does not expect the adoption of SFAS 156 to have a material effect on the Company's consolidated financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". It prescribes a recognition threshold and measurement methodology for financial statement reporting purposes and promulgates a series of new disclosures of tax positions taken or expected to be taken on a tax return for which less than all of the resulting tax benefits are expected to be realized. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt this interpretation in the first quarter of its 2008 fiscal year, which will begin July 1, 2007. The Company is currently evaluating the requirements of FIN 48 and has not yet determined the impact of such requirements on the Company's consolidated financial position or results of operations.

In September 2006, the Securities and Exchange Commission (the "SEC") staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements.

Historically, there have been two widely-used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the "roll-over" and "iron curtain" method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effect of errors in the current year income statement that result from the correction of an error existing in previously issued financial statements. We currently use the iron curtain method for quantifying identified financial statement misstatements.

**MISONIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Information with respect to interim periods is unaudited)

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the Company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods. SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 2, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this "cumulative effect" transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

We will initially apply SAB 108 using the cumulative effect transition method in connection with the preparation of our annual financial statements for the year ending June 30, 2007. The Company does not expect the provisions of SAB 108 to have a material effect on the Company's consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") to eliminate the diversity in practice that exists due to the different definitions of fair value. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. SFAS No. 157 states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. As such, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price).

SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable outputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition.

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although earlier application is encouraged. Additionally, prospective application of the provisions of SFAS No. 157 is required as of the beginning of the fiscal year in which it is initially applied, except when certain circumstances require retrospective application. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated financial position and results of operations.

In June 2006, the FASB ratified the consensus reached by the Emerging Issues Tax Force in Issue No. 06-3 ("EITF 06-3"), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)." The scope of EITF 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing activity between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. EITF 06-3 also concluded that the presentation of taxes within its scope on either a gross (included in revenues and costs) or net (excluded from revenues) basis is an accounting policy decision subject to appropriate disclosure. EITF 06-3 is effective for periods beginning after December 15, 2006. The Company currently presents these taxes on a net basis and has elected not to

change its presentation method.

16

**MISONIX, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

Nine months ended March 31, 2007 and 2006.

**Net sales**: Net sales increased $1,316,152 to $30,865,888 for the nine months ended March 31, 2007 from $29,549,736 for the nine months ended March 31, 2006. The increase in net sales was due to an increase in sales of medical device products of $1,555,919 to $17,082,915 for the nine months ended March 31, 2007 from $15,526,996 for the nine months ended March 31, 2006. The increase in medical device products revenues was attributable to a 23% increase in therapeutic medical device products revenues to $8,388,330, partially offset by a decrease in diagnostic medical device products revenues to $8,694,585. The increase in therapeutic medical device products revenues was primarily due to the increase in unit sales and fee per use revenues from the Sonoblate 500® which is used to treat prostate cancer as well as other prostate afflictions. The decrease in diagnostic medical device products revenues was not attributable to any one specific product or customer but across multiple products and customers. This difference in net sales is also due to a decrease in sales of laboratory and scientific products of $239,767 to $13,782,973 for the nine months ended March 31, 2007 from $14,022,740 for the nine months ended March 31, 2006. The decrease in sales of laboratory and scientific products was primarily a result of reduced sales of wet scrubber products of $765,912 partially offset by an increase in Labcaire Systems Limited ("Labcaire") sales of $489,416, primarily due to foreign exchange rate increases. A strengthening of the English pound, in relation to the U.S. dollar, will have the effect of increasing reported revenues, costs, expenses, and profits. Operating results for the Company's UK operations were translated for reporting purposes from English pounds into U.S. dollars using exchange rates of 1.91 and 1.76 for the nine months ended March 31, 2007 and 2006, respectively. The decrease in sales of wet scrubber products is due to the Company being extremely selective in the opportunities it pursues.

**Gross profit:** Gross profit expressed as a percentage of net sales increased to 42.7% for the nine months ended March 31, 2007 from 38.1% for the nine months ended March 31, 2006. The Company manufactures and sells both medical device and laboratory and scientific products with a wide range of product costs and gross profit dollars as a percentage of net sales. Gross profit for medical device products increased to 43.8% of sales in the nine months ended March 31, 2007 from 42.2% of net sales in the nine months ended March 31, 2006. The increase in gross profit percentage for medical device products was primarily due to increased volume from Sonoblate 500 unit sales and fee per use revenue which carry higher margins than other medical device products. Gross profit percentage for laboratory and scientific products increased to 41.3% for the nine months ended March 31, 2007 from 33.5% for the nine months ended March 31, 2006. The increase in gross profit percentage for laboratory and scientific products was due to an increase in gross profit margin at Labcaire, which was attributable to increased service revenues on Guardian endoscopic units and increased margins for wet scrubbers due to higher margin product shipments.

**Selling expenses:** Selling expenses increased $510,676 to $5,524,786 for the nine months ended March 31, 2007 from $5,014,110 for the nine months ended March 31, 2006. Medical device products selling expenses increased $573,615, predominantly due to increased expenses related to sales of therapeutic medical device products, and clinical trial expenses primarily related to the Sonoblate 500. Laboratory and scientific products selling expenses decreased $62,939, predominantly due to a decrease in marketing expenses and employees for the Company's fume enclosure, Ultrasonic and wet scrubber products, partially offset by an increase in selling expenses at Labcaire primarily due to an increase in foreign exchange rate.

**MISONIX, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General and administrative expenses**: General and administrative expenses decreased $206,500 from $7,528,168 in the nine months ended March 31, 2006 to $7,321,668 in the nine months ended March 31, 2007. Stock-based compensation decreased $299,719 from $440,060 in the March 2006 period to $140,341 in the March 2007 period. In addition, general and administrative expenses decreased at Labcaire and Acoustic Marketing Research, Inc d/b/a Sonora Medical Systems ("Sonora") due to reduced personnel partially offset by foreign exchange rate increases at Labcaire. The above decreases were partially offset by administrative expenses of $425,000 at UKHIFU which commenced operations April 1, 2006.

**Research and development expenses**: Research and development expenses decreased $355,140 from $2,739,043 for the nine months ended March 31, 2006 to $2,383,903 for the nine months ended March 31, 2007. Research and development expenses for medical device products decreased $182,680. Therapeutic medical device products research and development expenses decreased $197,963 primarily due to decreased consulting fees to Focus Surgery, Inc. ("Focus Surgery") for the liver/kidney product. Research and development expenses for diagnostic medical device products increased $15,283 relating to the development of new products which are expected to be introduced during the current fiscal year. Laboratory and scientific products research and development expenses decreased $172,460, predominantly due to reduced research and development efforts for wet scrubber products.

**Other income (expense):** Other income for the nine months ended March 31, 2007 was $356,342 as compared to $458,334 for the nine months ended March 31, 2006. The decrease of $101,992 was primarily due to increased interest expense of $188,446, which was partially offset by decreased royalty expense of $58,847. The increased interest expense was due principally to short-term borrowings used to fund domestic operations and increased borrowings at Labcaire.

**Income taxes:** The effective tax rate was 37.6% for the nine months ended March 31, 2007, as compared to an effective tax rate of 26.3% for the nine months ended March 31, 2006. The effective tax rate for the nine months ended March 31, 2007 was favorably impacted by an additional $98,000 of Research and Experimentation Credits provided for by the December 20, 2006 enactment of the Tax Relief and Health Care Act of 2006 (HR6111), which retroactively extends the tax credit for Research and Experimentation Expenditures through December 31, 2007.

Three months ended March 31, 2007 and 2006.

**Net sales**: Net sales increased $414,146 to $10,583,924 for the three months ended March 31, 2007 compared to $10,169,778 for the three months ended March 31, 2006. This increase in net sales is due to an increase in medical device products revenues of $949,271 to $6,031,451 for the three months ended March 31, 2007 from $5,082,180 for the three months ended March 31, 2006. This difference in net sales is also due to a decrease in laboratory and scientific products sales of $535,125 to $4,552,473 for the three months ended March 31, 2007 from $5,087,598 for the three months ended March 31, 2006. The increase in sales of medical device products is due to a $654,633 increase in sales of therapeutic medical device products and an increase of $294,638 in sales of diagnostic medical device products. The increase in sales of therapeutic medical device products was primarily due to increased unit sales and fee per use revenues from the Sonoblate 500 in Europe. The increase in sales of diagnostic medical device products was not attributable to a single customer or distributor or any other specific factor, but an increase in demand for several products. The decrease in sales of laboratory and scientific products is primarily due to a decrease in wet scrubber sales of $385,339, a decrease in ultrasonic laboratory products sales of $85,086, and a decrease in Labcaire sales of $54,317. The decrease in sales of wet scrubbers is due to the Company being extremely selective in the opportunities it pursues.

18

**MISONIX, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Gross profit:** Gross profit increased to 42.1% of net sales for the three months ended March 31, 2007 from 38.9% of sales for the three months ended March 31, 2006. Gross profit for medical device products decreased slightly to 43.4 % of net sales for the three months ended March 31, 2007 from 43.8% for the three months ended March 31, 2006. Gross profit for laboratory and scientific products increased to 40.5% of sales for the three months ended March 31, 2007 from 33.9% of net sales for the three months ended March 31, 2006. The increase in gross profit percentage from laboratory and scientific products is primarily due to the Company's selectivity in opportunities pursued in wet scrubber products.

**Selling expenses:** Selling expenses increased $237,791 to $2,003,430 for the three months ended March 31, 2007 from $1,765,639 for the three months ended March 31, 2006. Medical device products selling expenses increased $120,402, principally due to additional sales and marketing efforts for European distribution of the Sonoblate 500 product used to treat prostate cancer and other prostatic afflictions. Laboratory and scientific products selling expenses increased, predominantly due to increased sales and marketing efforts at Labcaire mainly attributable to the newly launched Endoscope Reprocessing Unit, ISIS.

**General and administrative expenses**: General and administrative expenses increased $111,611 to $2,614,237 in the three months ended March 31, 2007 from $2,502,626 in the three months ended March 31, 2006. The increase is predominantly due to increased expenses at UKHIFU which were partially offset by reduced stock-based compensation and decreased personnel expense related to head count reductions at Labcaire and Sonora.

**Research and development expenses**: Research and development expenses decreased $239,789 to $735,518 for the three months ended March 31, 2007 from $975,307 from the three months ended March 31, 2006. Medical device products research and development expenses decreased $132,708, predominantly due to reduced payments for research and development for the liver/kidney project to Focus Surgery. Research and development expenses for laboratory and scientific products decreased $107,081, primarily due to reduced research and development efforts for various product enhancements and new product designs for wet scrubber products.

**Other income (expense):** Other income for the three months ended March 31, 2007 was $81,267 as compared to $144,143 for the three months ended March 31, 2006. The decrease of $62,876 was primarily due to an increase in interest expense of $76,563 which was partially offset by a decrease in royalty expense of $32,799.

**Income taxes:** The effective tax rate is 31.4% for the three months ended March 31, 2007, as compared to an effective tax rate of 27.3% in the prior year period. The effective rate in the 2007 period increased due to the reduced losses in the U.K., which generate tax benefits at lower rates.

**Critical Accounting Policies:**

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Certain of these accounting policies require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities, revenues and expenses. On an ongoing basis, the Company bases its estimates on historical data and experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

**MISONIX, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Actual results may differ from these estimates. There have been no material changes in the Company's critical accounting policies and estimates from those discussed in Item 7 of the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

**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 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.

**Liquidity and Capital Resources**

Working capital at March 31, 2007 and June 30, 2006 was $10,206,198 and $12,103,001, respectively. The decrease in working capital at March 31, 2007 compared to June 30, 2006, was due principally to increases in short-term debt which were partially offset by increased accounts receivable and inventories.

Accounts receivable increased 22.9% at March 31, 2007 compared to June 30, 2006, primarily as a result of higher sales volumes in the March 2007 Quarter compared to the June 2006 Quarter. The Company borrowed against its revolving credit facilities during the nine month period ended March 31, 2007 to pay down accounts payable and to fund operations.

For the nine months ended March 31, 2007, cash used in operations totaled $2,419,661. For the nine months ended March 31, 2007, cash used in investing activities was $559,279, which primarily consisted of the acquisition of property, plant and equipment in the regular course of business. For the nine months ended March 31, 2007, cash provided by financing activities was $3,162,835, primarily consisting of short-term borrowings of $5,648,062, partially offset by principal payments on short-term borrowings, capital lease obligations and long-term debt. On December 29, 2006 the Company entered into a Credit Agreement with Wells Fargo Bank (see information below in "Revolving Credit Facilities").

The Company believes that its existing financial resources including the credit facilities referred to below will be adequate to meet anticipated requirements for working capital, capital expenitures, interest payments, and scheduled principal payments for the foreseeable future.

**Revolving Credit Facilities**

On December 29, 2006, the Company and its subsidiaries, Sonora and Hearing Innovations Incorporated (collectively referred to as the "Borrowers") and Wells Fargo Bank, entered into a (i) Credit and Security Agreement and a (ii) Credit and Security Agreement Export-Import Subfacility (collectively referred to as the "Credit Agreements").

20

**MISONIX, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The aggregate credit limit under the Credit Agreements is $8,000,000 consisting of a revolving facility in the amount of up to $8,000,000. Up to $1,000,000 of the revolving facility is available under the Export-Import Agreement as a subfacility for Export-Import working capital financing. All credit facilities under the Credit Agreements mature on December 29, 2009. Payment of amounts outstanding under the Credit Agreements may be accelerated upon the occurrence of an Event of Default (as defined in the Credit Agreements). All loans and advances under the Credit Agreements are secured by a first priority security interest in all of the Borrowers' accounts receivable, deposit accounts, property, plant and equipment, general intangibles, intellectual property, inventory, letter-of-credit rights, and all other business assets. The Borrowers have the right to terminate or reduce the credit facility prior to December 29, 2009 by paying a fee based on the aggregate credit limit (or reduction, as the case may be) as follows: (i) during year one of the Credit Agreements, 3%; (ii) during year two of the Credit Agreements, 2%; and (iii) during year three of the Credit Agreements, 1%.

The Credit Agreements contain financial covenants requiring that the Borrowers (i) on a consolidated basis not have a Net Loss (as defined in the Credit Agreements) of more than (a) $340,000 for the fiscal quarter ended March 31, 2007 and (b) $150,000 for the fiscal quarter ending June 30, 2007; and (ii) not incur or contract to incur Capital Expenditures (as defined in the Credit Agreements) of more than $1,000,000 in the aggregate in any fiscal year or more than $1,000,000 in any one transaction. At March 31, 2007, the Borrowers were in compliance with the financial covenants.

The available amount under the Credit Agreements is the lesser of $8,000,000 or the amount calculated under the Borrowing Base (as defined in the Credit Agreements). The Borrowers must maintain a minimum outstanding amount of $1,250,000 under the Credit Agreements at all times and pay a fee equal to the interest rate set forth on any such shortfall. Interest on amounts borrowed under the Credit Agreements is payable at Wells Fargo's prime rate of interest plus 1% per annum floating, payable monthly in arrears. The default rate of interest is 3% higher than the rate otherwise payable. A fee of 1/2 % per annum on the Unused Amount (as defined in the Credit Agreements) is payable monthly in arrears. At March 31, 2007, the balance outstanding under the Credit Agreements is $2,781,570.

Approximately $2,006,000 of the proceeds from the Credit Agreements was used to pay off the Company's outstanding revolving credit facility with the Bank of America and $629,000 was deposited with Bank of America to collateralize the Company's obligation with respect to an outstanding letter of credit.

Labcaire has a debt purchase agreement with Lloyds TSB Commercial Finance ("Lloyds"). The amount of this facility bears interest at the bank's base rate (5.25% at March 31, 2007 and March 31, 2006) plus 1.75% and a service charge of .15% of sales invoice value and fluctuates based upon the outstanding United Kingdom and European receivables. The agreement expired September 30, 2006, was extended until March 2007 and is currently being extended on a month to month basis. The agreement covers all United Kingdom and European sales. At March 31, 2007, the balance outstanding under this credit facility was $1,336,280 and Labcaire is not in violation of financial covenants.

Labcaire has an overdraft facility with Lloyds. The amount of this facility bears interest at Lloyds' base rate of 5.25% at March 31, 2007 plus 3.0%. The agreement expired September 30, 2006 and is currently being extended on a month to month basis while the Company and Lloyds are working on a long-term extension. At March 31, 2007, the balance outstanding under this overdraft facility was $497,586 and Labciare is not in violation of financial covenants.

**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.



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**MISONIX, INC.**

**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 and foreign exchange rates, which generate translation gains and losses due to the English Pound to U.S. Dollar conversion of Labcaire, Misonix Ltd. and UKHIFU.

*Foreign Exchange Rates:*

Approximately 30% of the Company’s revenues in the nine month period ended March 31, 2007 were received in English Pounds currency. To the extent that the Company’s revenues are generated in English Pounds, its operating results are translated for reporting purposes into U.S. Dollars using rates of 1.91 and 1.76 for the nine months ended March 31, 2007 and 2006, respectively. A strengthening of the English Pound, in relation to the U.S. Dollar, will have the effect of increasing its reported revenues and profits, while a weakening will have the opposite effect. Since the Company’s operations in England generally sets prices and bids for contracts in English Pounds, a strengthening of the English Pound, while increasing the value of its UK assets, might place the Company at a pricing disadvantage in bidding for work from manufacturers based overseas. The Company collects its receivables in the currency the subsidiary resides in. The Company has not engaged in foreign currency hedging transactions, which include forward exchange agreements.

*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, the terms of its debt obligations and projected borrowing requirements, it does not believe a 10% change in interest rates would have a significant impact on its consolidated financial position.

**Item 4. 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 Securities and Exchange Commission. 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 March 31, 2007 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

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 nine months ended March 31, 2007 that has materially affected, or is reasonable likely to materially affect, the Company’s internal control over financial reporting.

**MISONIX, INC.**

## 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 we make were set forth in the "Item 1A. Risk Factors" section of our Annual Report on Form 10-K for the year ended June 30, 2006. 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 of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 10, 2007

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