

MISONIX INC  
Form 10-Q  
May 08, 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 March 31, 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)

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

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

(631) 694-9555

(Registrant's telephone number, including area code)

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

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| Class of Common Stock         | Outstanding at<br>May 8, 2014 |
|-------------------------------|-------------------------------|
| Common Stock, \$.01 par value | 7,280,786                     |

**MISONIX, INC.**

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

|  | March 31,<br>2014<br><br>(unaudited) | June 30,<br>2013<br><br>(derived from<br>audited<br>financial<br>statements) |
|--|--------------------------------------|--|
| Assets   |                                      |  |
| Current assets:  |                                      |  |
| Cash and cash equivalents  | \$5,648,200                          | \$5,806,437  |
| Accounts receivable, less allowance for doubtful accounts of \$171,868 and \$214,641, respectively                           | 2,955,280                            | 2,974,641  |
| Inventories, net   | 4,119,226                            | 4,034,477  |
| Prepaid expenses and other current assets  | 361,534                              | 387,371  |
| Total current assets   | 13,084,240                           | 13,202,926   |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$4,646,592 and \$4,153,737, respectively | 1,507,679                            | 1,326,586  |
| Goodwill   | 1,701,094                            | 1,701,094  |
| Intangible and other assets  | 961,915                              | 1,129,321  |
| Total assets   | \$17,254,928                         | \$17,359,927   |
| Liabilities and stockholders' equity   |                                      |  |
| Current liabilities:   |                                      |  |
| Accounts payable   | \$1,322,570                          | \$2,208,999  |
| Accrued expenses and other current liabilities   | 1,197,601                            | 1,276,963  |
| Total current liabilities  | 2,520,171                            | 3,485,962  |
| Deferred lease liability   | 18,413                               | 23,811   |
| Deferred income  | 62,367                               | 72,934   |
| Total liabilities  | 2,600,951                            | 3,582,707  |

Commitments and contingencies (Note 8)

Stockholders' equity:

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|  |              |               |
|--|--------------|---------------|
| Common stock, \$.01 par value-shares authorized 20,000,000, 7,358,346 and 7,233,884 shares issued and 7,280,786 and 7,156,324 shares outstanding, respectively | 73,583       | 72,339        |
| Additional paid-in capital   | 27,860,966   | 26,989,559    |
| Accumulated deficit  | (12,869,579) | (12,873,685 ) |
| Treasury stock, at cost, 77,560 shares   | (410,993 )   | (410,993 )    |
| Total stockholders' equity   | 14,653,977   | 13,777,220    |
| Total liabilities and stockholders' equity   | \$17,254,928 | \$17,359,927  |

*See Accompanying Notes to Consolidated Financial Statements.*

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

|  | For the nine months ended<br>March 31, |                |
|--|--|----------------|
|  | 2014                                   | 2013           |
| Net sales  | \$ 11,482,288                          | \$ 11,068,243  |
| Cost of goods sold   | 4,006,505                              | 4,953,193      |
| Gross profit   | 7,475,783                              | 6,115,050      |
| Operating expenses:  |  |                |
| Selling expenses   | 5,426,324                              | 4,768,867      |
| General and administrative expenses  | 3,518,288                              | 3,290,671      |
| Research and development expenses  | 1,314,373                              | 1,143,289      |
| Total operating expenses   | 10,258,985                             | 9,202,827      |
| Loss from operations   | (2,783,202 )                           | (3,087,777 )   |
| Other income (expense):  |  |                |
| Interest income  | 56                                     | 56             |
| Royalty income and license fees  | 2,552,888                              | 1,770,217      |
| Royalty expense  | -                                      | (5,295 )       |
| Other  | (16,686 )                              | (51,563 )      |
| Total other income   | 2,536,258                              | 1,713,415      |
| Loss from continuing operations before income taxes  | (246,944 )                             | (1,374,362 )   |
| Income tax expense/(benefit)   | 13,876                                 | (55,297 )      |
| Net loss from continuing operations  | (260,820 )                             | (1,319,065 )   |
| Discontinued operations:   |  |                |
| Income from discontinued operations net of tax expense of \$0 and \$1,619, respectively        | 14,926                                 | 13,149         |
| Gain from sale of discontinued operations net of tax expense of \$0 and \$81,349, respectively | 250,000                                | 168,651        |
| Net income from discontinued operations  | 264,926                                | 181,800        |
| Net income/(loss)  | \$4,106                                | \$(1,137,265 ) |
| Net loss per share from continuing operations - Basic  | \$(0.04 )                              | \$(0.19 )      |
| Net income per share from discontinued operations - Basic                                      | 0.04                                   | 0.03           |
| Net income/(loss) per share - Basic  | \$0.00                                 | \$(0.16 )      |
| Net loss per share from continuing operations - Diluted  | \$(0.04 )                              | \$(0.19 )      |
| Net income per share from discontinued operations - Diluted                                    | 0.04                                   | 0.03           |

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|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Net income/(loss) per share - Diluted | \$0.00    | \$(0.16 ) |
| Weighted average shares - Basic       | 7,209,037 | 7,028,790 |
| Weighted average shares - Diluted     | 7,209,037 | 7,028,790 |

*See Accompanying Notes to Consolidated Financial Statements.*



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

|  | For the three months ended<br>March 31, |              |
|--|---|--------------|
|  | 2014                                    | 2013         |
| Net sales  | \$4,284,645                             | \$3,023,487  |
| Cost of goods sold   | 1,431,766                               | 1,482,329    |
| Gross profit   | 2,852,879                               | 1,541,158    |
| Operating expenses:  |   |              |
| Selling expenses   | 1,913,795                               | 1,764,718    |
| General and administrative expenses  | 1,176,047                               | 1,155,613    |
| Research and development expenses  | 406,466                                 | 379,901      |
| Total operating expenses   | 3,496,308                               | 3,300,232    |
| Loss from operations   | (643,429 )                              | (1,759,074 ) |
| Other income (expense):  |   |              |
| Interest income  | 18                                      | 18           |
| Royalty income and license fees  | 830,702                                 | 1,025,153    |
| Royalty expense  | -                                       | (182 )       |
| Other  | (5,121 )                                | (25,378 )    |
| Total other income   | 825,599                                 | 999,611      |
| Income/(loss) from continuing operations before income taxes                                   | 182,170                                 | (759,463 )   |
| Income tax expense/(benefit)   | 8,376                                   | (59,126 )    |
| Net income/(loss) from continuing operations   | 173,794                                 | (700,337 )   |
| Discontinued operations:   |   |              |
| Income from discontinued operations net of tax expense of \$0 and \$1,619, respectively        | 4,976                                   | 3,356        |
| Gain from sale of discontinued operations net of tax expense of \$0 and \$81,349, respectively | 250,000                                 | 168,651      |
| Net income from discontinued operations  | 254,976                                 | 172,007      |
| Net income/(loss)  | \$428,770                               | \$(528,330 ) |
| Net income/(loss) per share from continuing operations - Basic                                 | \$0.02                                  | \$(0.10 )    |
| Net income per share from discontinued operations - Basic                                      | 0.04                                    | 0.02         |
| Net income/(loss) per share - Basic  | \$0.06                                  | \$(0.08 )    |
| Net income/(loss) per share from continuing operations - Diluted                               | \$0.02                                  | \$(0.10 )    |
| Net income per share from discontinued operations - Diluted                                    | 0.03                                    | 0.02         |

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|                                       |           |            |
|---------------------------------------|-----------|------------|
| Net income/(loss) per share - Diluted | \$0.05    | \$ (0.08 ) |
| Weighted average shares - Basic       | 7,249,725 | 7,060,965  |
| Weighted average shares - Diluted     | 7,930,802 | 7,060,965  |

*See Accompanying Notes to Consolidated Financial Statements.*

**MISONIX, INC. and Subsidiaries****Consolidated Statement of Stockholders' Equity****(Unaudited)****For the nine months ended March 31, 2014**

|  | Common Stock,<br>\$.01 Par Value |          | Treasury Stock         |             | Additional<br>paid-in<br>capital | Accumulated<br>deficit | Total<br>stockholders'<br>equity |
|--|----------------------------------|----------|------------------------|-------------|----------------------------------|------------------------|----------------------------------|
|  | Number<br>of shares              | Amount   | Number<br>of<br>shares | Amount      |                                  |                        |                                  |
| Balance, June 30, 2013                     | 7,233,884                        | \$72,339 | (77,560)               | \$(410,993) | \$26,989,559                     | \$(12,873,685)         | \$13,777,220                     |
| Net<br>income/comprehensive<br>income      | -                                | -        | -                      | -           | -                                | 4,106                  | 4,106                            |
| Proceeds from exercise of<br>stock options | 124,462                          | 1,244    | -                      | -           | 362,011                          | -                      | 363,255                          |
| Stock-based compensation                   | -                                | -        | -                      | -           | 509,396                          | -                      | 509,396                          |
| Balance, March 31, 2014                    | 7,358,346                        | \$73,583 | (77,560)               | \$(410,993) | \$27,860,966                     | \$(12,869,579)         | \$14,653,977                     |

*See Accompanying Notes to Consolidated Financial Statements.*

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

|   | For the nine months ended<br>March 31, |                |
|---|--|----------------|
|   | 2014                                   | 2013           |
| Operating activities  |  |                |
| Net loss from continuing operations   | \$(260,820 )                           | \$(1,319,065 ) |
| Adjustments to reconcile net loss to net cash (used in)/ provided by continuing operating activities: |  |                |
| Depreciation and amortization and other non-cash items  | 712,418                                | 572,138        |
| Bad debt expense/recovery   | (42,773 )                              | 43,902         |
| Stock-based compensation  | 509,396                                | 356,452        |
| Deferred income   | (2,745 )                               | (21,164 )      |
| Deferred lease liability  | (5,398 )                               | 611            |
| Changes in operating assets and liabilities:  |  |                |
| Accounts receivable   | 62,134                                 | 325,901        |
| Inventories   | (733,723 )                             | 130,558        |
| Prepaid expenses and other assets   | 95,050                                 | 65,657         |
| Accounts payable, accrued expenses and other non-cash items   | (973,613 )                             | (23,755 )      |
| Net cash (used in)/provided by operating activities   | (640,074 )                             | 131,235        |
| Investing activities  |  |                |
| Acquisition of property, plant and equipment  | (61,257 )                              | (677,135 )     |
| Additional patents  | (85,087 )                              | (53,179 )      |
| Net cash used in investing activities   | (146,344 )                             | (730,314 )     |
| Financing activities  |  |                |
| Proceeds from exercise of stock options   | 363,255                                | 235,828        |
| Net cash provided by financing activities   | 363,255                                | 235,828        |
| Cash flows from discontinued operations   |  |                |
| Net cash provided by operating activities   | 14,926                                 | 13,149         |
| Net cash provided by investing activities   | 250,000                                | 168,651        |
| Net cash provided by discontinued operations  | 264,926                                | 181,800        |
| Net decrease in cash and cash equivalents   | (158,237 )                             | (181,451 )     |
| Cash and cash equivalents at beginning of period  | 5,806,437                              | 6,273,015      |
| Cash and cash equivalents at end of period  | \$5,648,200                            | \$6,091,564    |
| Supplemental disclosure of cash flow information:   |  |                |
| Cash paid for:  |  |                |
| Income taxes  | \$17,076                               | \$22,270       |

*See Accompanying Notes to Consolidated Financial Statements.*

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

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

(Unaudited)

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

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

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

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

#### **Organization and Business**

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

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

|                   | Three months ended March 31, |              |                   | Nine months ended March 31, |               |
|-------------------|------------------------------|--------------|-------------------|-----------------------------|---------------|
|                   | 2014                         | 2013         |                   | 2014                        | 2013          |
| United States     | \$ 2,258,370                 | \$ 1,566,912 | United States     | \$ 5,667,183                | \$ 5,652,072  |
| Australia         | 40,805                       | 39,700       | Australia         | 116,158                     | 321,374       |
| Europe            | 834,195                      | 579,509      | Europe            | 1,587,486                   | 2,299,808     |
| Asia              | 688,432                      | 309,696      | Asia              | 2,025,492                   | 1,093,479     |
| Canada and Mexico | 183,827                      | 180,756      | Canada and Mexico | 616,172                     | 436,738       |
| South America     | 100,373                      | 171,992      | South America     | 810,977                     | 578,380       |
| South Africa      | 156,403                      | 51,162       | South Africa      | 322,097                     | 363,429       |
| Middle East       | 22,240                       | 123,760      | Middle East       | 336,723                     | 322,963       |
|                   | \$ 4,284,645                 | \$ 3,023,487 |                   | \$ 11,482,288               | \$ 11,068,243 |

## Discontinued Operations

### *Laboratory and Forensic Safety Products Business*

On October 19, 2011, Misonix sold its Laboratory and Forensic Safety Products business, which comprised substantially all of the Laboratory and Scientific Products segment, to Mystaire, Inc. for \$1.5 million in cash plus a potential additional payment of up to an aggregate \$500,000 based upon 30% of net sales in excess of \$2.0 million for each of the three years following the closing (the "earn-out"). The earn-out will not be factored into the gain on sale until it is earned by Misonix. As of March 31, 2014, no earn-out has been recorded.

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

(Unaudited)

***High Intensity Focused Ultrasound Technology***

In consideration for the May 2010 sale of the rights to its high intensity focused ultrasound technology to USHIFU LLC (“USHIFU”), Misonix will receive up to approximately \$5.8 million, paid out of an earn-out of 7% of gross revenues received by USHIFU related to the business that was sold up to the time the Company has received the first \$3 million and thereafter 5% of the gross revenues up to the \$5.8 million. Commencing 90 days after each December 31<sup>st</sup> and beginning December 31, 2011 the payments will be the greater of (a) \$250,000 or (b) 7% of gross revenues received up to the time the Company has received the first \$3 million and thereafter 5% of gross revenues up to the \$5.8 million. Total payments through March 31, 2014 were \$754,788.

***Results of Discontinued Operations***

|   | For the three months ended<br>March 31, |            | For the nine months ended<br>March 31, |            |
|---|---|------------|--|------------|
|   | 2014                                    | 2013       | 2014                                   | 2013       |
| Revenues  | \$ 4,976                                | \$ 4,975   | \$ 14,926                              | \$ 14,925  |
| Income from discontinued operations, before tax     | \$ 4,976                                | \$ 4,975   | \$ 14,926                              | \$ 14,768  |
| Gain on sale of discontinued operations             | \$ 250,000                              | \$ 250,000 | \$ 250,000                             | \$ 250,000 |
| Income tax expense                                  | -                                       | (82,968 )  | -                                      | (82,968 )  |
| Net income from discontinued operations, net of tax | \$ 254,976                              | \$ 172,007 | \$ 264,926                             | \$ 181,800 |

**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 nine months ended<br>March 31, |           | For the three months ended<br>March 31, |           |
|----------------------------------|--|-----------|---|-----------|
|                                  | 2014                                   | 2013      | 2014                                    | 2013      |
| Basic shares                     | 7,209,037                              | 7,028,790 | 7,249,725                               | 7,060,965 |
| Dilutive effect of stock options | -                                      | -         | 681,077                                 | -         |
| Diluted shares                   | 7,209,037                              | 7,028,790 | 7,930,802                               | 7,060,965 |

Excluded from the calculations of diluted EPS are options to purchase 166,800 shares of common stock for the three months ended March 31, 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 nine months ended March 31, 2014 and nine and three months ended March 31, 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 1,732,829 shares of common stock for the nine months ended March 31, 2014 and 1,862,079 shares of common stock for the three and nine months ended March 31, 2013.

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

Total comprehensive income/(loss), which includes results of discontinued operations, was \$4,106 and \$(1,137,265) for the nine months ended March 31, 2014 and 2013, respectively. Total comprehensive income/(loss) was \$428,770 and (\$528,330) for the three months ended March 31, 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 nine month periods ended March 31, 2014 and 2013, the Company granted options to purchase 324,000 and 342,500 shares of the Company's common stock, respectively.

Stock-based compensation expense for the nine month periods ended March 31, 2014 and 2013 was approximately \$509,000 and \$356,000, 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 March 31, 2014, there was approximately \$1,907,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements to be recognized over a weighted-average period of 3 years.

Cash in the amount of \$363,255 was received from the exercise of stock options for the nine months ended March 31, 2014.

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

(Unaudited)

The fair values of the options granted during the nine months ended March 31, 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 nine months ended<br>March 31, |   |         |   |
|--|--|---|---------|---|
|  | 2014                                   |   | 2013    |   |
| Risk-free interest rate                        | 3.0                                    | % | 2.5     | % |
| Expected option life in years                  | 6.5                                    |   | 6.5     |   |
| Expected stock price volatility                | 76.1                                   | % | 75.1    | % |
| Expected dividend yield                        | 0.0                                    | % | 0.0     | % |
| Weighted-average fair value of options granted | \$ 3.95                                |   | \$ 2.94 |   |

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 expect to declare any in the future.

Changes in outstanding stock options during the nine months ended March 31, 2014 were as follows:

|                                 | Options             |   | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value (a) |
|---------------------------------|---------------------|---|---|-------------------------------------|
|                                 | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price (\$) | (years)   |                                     |
| Outstanding as of June 30, 2013 | 1,729,991           | 3.65  |   |                                     |
| Granted                         | 324,000             | 4.94  |   |                                     |
| Exercised                       | (124,462 )          | 2.92  |   | \$252,355                           |
| Forfeited                       | (34,500 )           | 4.77  |   |                                     |

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|  |            |      |     |             |
|--|------------|------|-----|-------------|
| Expired                                  | (162,200 ) | 4.67 |     |             |
| Outstanding as of March 31, 2014         | 1,732,829  | 3.82 | 5.5 | \$4,552,696 |
| Exercisable and vested at March 31, 2014 | 1,017,806  | 3.72 | 4.6 | \$2,827,263 |
| Available for grant March 31, 2014       | 580,225    |      |     |             |

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 March 31, 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 nine months ended March 31, 2014, the Company recorded an income tax expense in continuing operations of \$13,876.

For the nine months ended March 31, 2014 and 2013, the effective rate of (6%) and 4%, 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 March 31, 2014.

As of March 31, 2014 and June 30, 2013, the Company has no material unrecognized tax benefits or accrued interest and penalties.

6. Inventories

Inventories are summarized as follows:

|                 | March 31,<br>2014 | June 30,<br>2013 |
|-----------------|-------------------|------------------|
| Raw material    | \$2,043,297       | \$2,641,982      |
| Work-in-process | 481,983           | 394,629          |
| Finished goods  | 3,069,671         | 2,358,943        |
|                 | 5,594,951         | 5,395,554        |

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|                        |             |             |
|------------------------|-------------|-------------|
| Less valuation reserve | 1,475,725   | 1,361,077   |
|                        | \$4,119,226 | \$4,034,477 |

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

|                                     | March 31,<br>2014 | June 30,<br>2013 |
|-------------------------------------|-------------------|------------------|
| Accrued payroll and vacation        | \$448,219         | \$456,095        |
| Accrued bonuses                     | 200,000           | 225,000          |
| Accrued commissions                 | 235,000           | 200,678          |
| Accrued professional and legal fees | 62,706            | 70,450           |
| Deferred income                     | 127,171           | 146,038          |
| Other                               | 124,505           | 178,702          |
|                                     | \$1,197,601       | \$1,276,963      |

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

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

(Unaudited)

#### **8. Commitments and Contingencies**

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

On July 19, 2011, Misonix entered into a Distribution Agreement (the "Distribution Agreement") with Puricore, Inc. ("Puricore"). Pursuant to the Distribution Agreement, the Company had been granted the right to distribute PuriCore's Vashe<sup>®</sup> 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.



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

(Unaudited)

**9. Fair Value of Financial Instruments**

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

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

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

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

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at March 31, 2014 and June 30, 2013:

| March 31, 2014            | Carrying Amount | Fair Value  |
|---------------------------|-----------------|-------------|
| Cash and cash equivalents | \$ 5,648,200    | \$5,648,200 |
| Trade accounts receivable | 2,955,280       | 2,955,280   |
| Trade accounts payable    | 1,322,570       | 1,322,570   |

| June 30, 2013             | Carrying Amount | Fair Value  |
|---------------------------|-----------------|-------------|
| Cash and cash equivalents | \$ 5,806,437    | \$5,806,437 |
| Trade accounts receivable | 2,974,641       | 2,974,641   |
| Trade accounts payable    | 2,208,999       | 2,208,999   |

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

***Cash and cash equivalents***

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

***Trade Accounts Receivable***

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

***Trade Accounts Payable***

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

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

Certain non-financial assets and liabilities, principally goodwill, are measured at fair value on a non-recurring basis; that is the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when evidence of impairment exists. At March 31, 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 March 31, 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 \$590,630 and \$568,823 at March 31, 2014 and June 30, 2013, respectively. Accumulated amortization totaled \$618,203 and \$554,923 at March 31, 2014 and June 30, 2013, respectively. Amortization expense for the three month periods ended March 31, 2014 and 2013 was approximately \$22,000 and \$18,000, respectively. Amortization expense for the nine month periods ended March 31, 2014 and 2013 was approximately \$63,000 and \$53,000, respectively.

Net customer relationships reported in intangible and other assets totaled \$240,000 and \$360,000 at March 31, 2014 and June 30, 2013, respectively. Accumulated amortization amounted to \$560,000 at March 31, 2014 and \$440,000 at June 30, 2013. Amortization expense for the three month periods ended March 31, 2014 and 2013 was \$40,000. Amortization expense for the nine month periods ended March 31, 2014 and 2013 was \$120,000. Customer relationships are amortized on a straight-line basis over a five year period.

The following is a schedule of estimated future amortization expense as of March 31, 2014:

|            | Patents   | Customer Relationships |
|------------|-----------|------------------------|
| 2014       | \$22,603  | \$ 40,000              |
| 2015       | 82,235    | 160,000                |
| 2016       | 76,719    | 40,000                 |
| 2017       | 74,535    | -                      |
| 2018       | 71,478    | -                      |
| Thereafter | 263,060   | -                      |
|            | \$590,630 | \$ 240,000             |

#### 11. Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board 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 Company is currently evaluating the impact of the pending adoption of ASU 2014 – 08 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 Company's Board of Directors on May 7, 2013. Mr. Vizirgianakis owns a controlling interest in MD Solutions Australasia PTY Ltd and a family member owns one hundred percent of Applied BioSurgical; both independent distributors for the Company. The Company's distribution agreements with these companies pre-date Mr. Vizirgianakis' appointment to the Board of Directors.

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

| For the nine months ended March 31, |            |            |
|-------------------------------------|------------|------------|
| Applied Bio Surgical                | 2014       | 2013       |
| Sales                               | \$ 322,097 | \$ 363,392 |
| Accounts Receivable                 | \$ 130,354 | \$ 146,083 |

| MD Solutions Australasia PTY Ltd. | 2014       | 2013       |
|-----------------------------------|------------|------------|
| Sales                             | \$ 116,158 | \$ 320,379 |
| Accounts Receivable               | \$ 13,713  | \$ 42,574  |

| For the three months ended March 31, |            |            |
|--------------------------------------|------------|------------|
| Applied Bio Surgical                 | 2014       | 2013       |
| Sales                                | \$ 156,403 | \$ 51,162  |
| Accounts Receivable                  | \$ 130,354 | \$ 146,083 |

| MD Solutions Australasia PTY Ltd. | 2014      | 2013      |
|-----------------------------------|-----------|-----------|
| Sales                             | \$ 40,805 | \$ 39,700 |
| Accounts Receivable               | \$ 13,713 | \$ 42,574 |

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations of Misonix and its subsidiaries, in which we refer to the Company as “Misonix”, “we”, “our” and “us”, should be read in conjunction with the accompanying unaudited financial statements included in “Item 1. Financial Statements” of this Report and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the “SEC”) on September 24, 2013, for the fiscal year ended June 30, 2013 (“2013 Form 10-K”). Item 7 of the 2013 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of March 31, 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.

### **Nine months ended March 31, 2014 and 2013.**

**Net sales:** Net sales increased \$414,045 to \$11,482,288 for the nine months ended March 31, 2014 from \$11,068,243 for the nine months ended March 31, 2013. The increase in sales is due to higher BoneScalpel sales of \$365,107, higher SonicOne revenue of \$306,031 and higher Lysonix revenue of \$53,707, partially offset by lower SonaStar revenue of \$10,310, lower service revenue of \$287,579 and lower other revenue of \$12,911. There were 44 BoneScalpel units consigned in the United States during the nine months ended March 31, 2014 as compared to 10 consigned BoneScalpel units 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 nine months ended March 31, 2014 and 2013:

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|             | Nine months ended March 31, |              |           |
|-------------|-----------------------------|--------------|-----------|
|             | 2014                        | 2013         | Variance  |
| BoneScalpel | \$5,196,312                 | \$4,831,205  | \$365,107 |
| SonicOne    | 1,733,240                   | 1,427,209    | 306,031   |
| SonaStar    | 3,902,565                   | 3,912,875    | (10,310 ) |
| Other       | 650,171                     | 896,954      | (246,783) |
|             | \$11,482,288                | \$11,068,243 | \$414,045 |

|                   | Nine months ended March 31, |               |
|-------------------|-----------------------------|---------------|
|                   | 2014                        | 2013          |
| United States     | \$ 5,667,183                | \$ 5,652,072  |
| Australia         | 116,158                     | 321,374       |
| Europe            | 1,587,486                   | 2,299,808     |
| Asia              | 2,025,492                   | 1,093,479     |
| Canada and Mexico | 616,172                     | 436,738       |
| South America     | 810,977                     | 578,380       |
| South Africa      | 322,097                     | 363,429       |
| Middle East       | 336,723                     | 322,963       |
|                   | \$ 11,482,288               | \$ 11,068,243 |

**Gross profit:** Gross profit increased to 65.1% for the nine months ended March 31, 2014 from 55.2 % for the nine months ended March 31, 2013. The increase is primarily related to the reversal of \$439,508 Soma related costs previously accrued in fiscal 2013 in accordance with the PuriCore Settlement Agreement (see Note 8 “Commitments and Contingencies”), in addition to \$450,000 of Soma related costs booked in fiscal 2013.

**Selling expenses:** Selling expenses increased \$657,457 to \$5,426,324 for the nine months ended March 31, 2014 from \$4,768,867. The increase is due to higher sales commission expense of \$562,732 and higher depreciation expense of \$130,699, partially offset by favorable personnel and travel expenses of \$32,850 and other favorable expenses of \$3,214.

**General and administrative expenses:** General and administrative expenses increased \$227,617 to \$3,518,288 for the nine months ended March 31, 2014 from \$3,290,671 for the nine months ended March 31, 2013. The increase is due to the higher non-cash compensation expenses from the issuance of stock options of \$152,945, higher accounting expenses of \$38,509, higher consulting expenses of \$24,056 and other higher expenses of \$12,107.

**Research and development expenses:** Research and development expenses increased \$171,048 to \$1,314,373 for the nine months ended March 31, 2014 from \$1,143,289 for the nine months ended March 31, 2013. The increase in expenses is related to higher product development material expenses of \$73,451, higher personnel expenses of \$58,430, higher amortization and legal expenses of \$37,499 and other higher expenses of \$1,668.

**Other income (expense):** Other income for the nine months ended March 31, 2014 was \$2,536,258 as compared to \$1,713,415 for the nine months ended March 31, 2013. The increase in other income of \$822,843 is primarily related to an increase in royalty income from Covidien plc. of \$782,671.



**Income taxes:** For the nine months ended March 31, 2014, the Company recorded an effective tax rate of (6.0%) versus 4% for the nine months ended March 31, 2013. The Company estimates its financial statement effective tax rate for the full year, inclusive of discontinued operations, to be approximately 1%. The actual effective rate for continuing operations may vary materially based on several factors including the realization of earn-outs recorded in discontinued operations and the related intraperiod tax allocation, the ratio of permanent differences to pretax income (loss), and a change in the valuation allowances as well as other factors.

**Three months ended March 31, 2014 and 2013**

**Net sales:** Net sales increased \$1,261,158 to \$4,264,645 for the three months ended March 31, 2014 from \$3,023,487 for the three months ended March 31, 2013. The increase in sales is due to higher BoneScalpel sales of \$613,148, higher SonicOne sales of \$330,140 and higher SonaStar sales of \$291,625 and higher other revenue of \$26,245. There were 20 BoneScalpel units consigned in the United States during the three month period ended March 31, 2014 compared to 5 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 March 31, 2014 and 2013:

|             | Three months ended March 31, |             |             |
|-------------|------------------------------|-------------|-------------|
|             | 2014                         | 2013        | Variance    |
| BoneScalpel | \$1,739,432                  | \$1,126,284 | \$613,148   |
| SonicOne    | 728,214                      | 398,074     | 330,140     |
| SonaStar    | 1,578,404                    | 1,286,779   | 291,625     |
| Other       | 238,595                      | 212,350     | 26,245      |
|             | \$4,284,645                  | \$3,023,487 | \$1,261,158 |

|                   | Three months ended March 31, |              |
|-------------------|------------------------------|--------------|
|                   | 2014                         | 2013         |
| United States     | \$ 2,258,370                 | \$ 1,566,912 |
| Australia         | 40,805                       | 39,700       |
| Europe            | 834,195                      | 579,509      |
| Asia              | 688,432                      | 309,696      |
| Canada and Mexico | 183,827                      | 180,756      |
| South America     | 100,373                      | 171,992      |
| South Africa      | 156,403                      | 51,162       |
| Middle East       | 22,240                       | 123,760      |
|                   | \$ 4,284,645                 | \$ 3,023,487 |

**Gross profit:** Gross profit increased 66.6% for the three months ended March 31, 2014 from 51% for the three months ended March 31, 2013, an increase of 15.6%. The increase is primarily due to an increase in disposable sales which carry higher margins along with the termination of the Puricore, Inc. contract which eliminated the gross profit margin reimbursement of \$189,000 (See Note 8 "Commitments and Contingencies").

**Selling expenses:** Selling expenses increased \$149,077 to \$1,913,795 for the three months ended March 31, 2014 from \$1,764,718 for the three months ended March 31, 2013. The increase is related to higher sales commission expenses of \$318,763 and higher consulting expenses of \$41,903, partially offset by lower travel expenses of \$135,054, lower personnel related expenses of \$76,299 and other favorable expenses of \$236.

**General and administrative expenses:** General and administrative expenses increased \$20,434 to \$1,176,047 for the three months ended March 31, 2014 from \$1,155,613 for the three months ended March 31, 2013. The increase is related to higher bank fees of \$22,000 partially offset by other favorable expenses of \$1,566.

**Research and development expenses:** Research and development expenses increased \$26,565 to \$406,466 for the three months ended March 31, 2014 from \$379,901 for the three months ended March 31, 2013. The increase in these expenses is due to higher personnel expenses of \$23,157 and other unfavorable expenses of \$3,408.

**Other income (expense):** Other income for the three months ended March 31, 2014 was \$825,599 as compared to \$999,611 for the three months ended March 31, 2013. The decrease in other income of \$174,012 is due to lower royalty income of \$194,451 from Covidien plc.

**Income taxes:** For the three months ended March 31, 2014, the Company recorded an effective tax rate of 5%, compared to 8% for the three months ended March 31, 2013. The Company estimates its financial statement effective tax rate for the full year, inclusive of discontinued operations, to be approximately 1%. The actual effective rate for continuing operations may vary materially based on several factors including the realization of earn-outs recorded in discontinued operations and the related intraperiod tax allocation, the ratio of permanent differences to pretax income (loss), and a change in the valuation allowances as well as other factors.

**PuriCore Settlement:**

As previously disclosed, the Company had entered into a Product License and Distribution Agreement, dated as of July 19, 2011 (the “Distribution Agreement”), with PuriCore, Inc. (“PuriCore”). Pursuant to the Distribution Agreement, the Company had the right to distribute PuriCore’s Vashē<sup>®</sup> solutions product in the United States on a private label basis under the name “Soma.” Disputes between the Company and Puricore were finally resolved on October 11, 2013 when the parties executed a Settlement Agreement pursuant to which the Distribution Agreement was terminated with no additional payments required to be made by either Misonix or PuriCore (the “Settlement Agreement”). 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.

**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 |            | For the nine months ended |            |
|---|----------------------------|------------|---------------------------|------------|
|   | March 31,                  |            | March 31,                 |            |
|   | 2014                       | 2013       | 2014                      | 2013       |
| Revenues  | \$ 4,976                   | \$ 4,975   | \$ 14,926                 | \$ 14,925  |
| Income from discontinued operations, before tax     | \$ 4,976                   | \$ 4,975   | \$ 14,926                 | \$ 14,768  |
| Gain on sale of discontinued operations             | 250,000                    | 250,000    | 250,000                   | 250,000    |
| Income tax expense                                  | -                          | (82,968 )  | -                         | (82,968 )  |
| Net income from discontinued operations, net of tax | \$ 254,976                 | \$ 172,007 | \$ 264,926                | \$ 181,800 |

**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 March 31, 2014 and June 30, 2013 was \$10,564,000 and \$9,717,000, respectively. For the nine months ended March 31, 2014, cash used in operations totaled \$640,074, primarily related to higher inventories of \$733,723 partially offset by lower prepaid expenses and other assets of \$95,050. For the nine months ended March 31, 2014, cash used in investing activities was \$146,344, primarily due to the acquisition of fixed assets and applications for additional patents. For the nine months ended March 31, 2014, cash provided by financing activities was \$363,255 from the exercise of stock options. For the nine months ended March 31, 2014, cash provided by discontinued operations was \$264,926.

### **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 March 31, 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 March 31, 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 2013 Form 10-K. There have been no material changes from the risk factors disclosed in that Form 10-K.

**Item 6. Exhibits.**

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

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

Exhibit 32.1 Section 1350 Certification of Chief Executive Officer

Exhibit 32.2 Section 1350 Certification of Chief Financial Officer



**SIGNATURES**

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

Date: May 8, 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