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MISONIX INC
Form 10-Q/A
September 19, 2003

FORM 10-Q/A
Amendment No. 2

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 December 31, 2002

OR

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

For the transition period from _____ to _____.

Commission file number: 1-10986

MISONIX, INC.

(Exact name of registrant as specified in its charter)

New York

11-2148932

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

1938 New Highway, Farmingdale, NY

11735

(Address of principal executive offices)

(Zip Code)

(631) 694-9555

(Registrant's telephone number, including area code)

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

Yes X No
--- ---

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No X
--- ---

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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 February 1, 2003
----- Common Stock, \$.01 par value	----- 6,644,365

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MISONIX, INC.

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PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements.	

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MISONIX, INC.
CONSOLIDATED BALANCE SHEETS
=====

	DECEMBER 31, 2002	
	-----	-----
ASSETS		(UNAUDITED)
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 1,330,933	\$
Accounts receivable, less allowance for doubtful accounts of \$231,544 and \$223,413, respectively	6,917,694	
Inventories	8,817,528	
Prepaid income taxes	1,903,168	
Deferred income taxes	412,174	
Prepaid expenses and other current assets	614,472	
	-----	-----
Total current assets	19,995,969	1
Property, plant and equipment, net	3,511,668	
Deferred income taxes	577,104	
Goodwill	4,473,713	
Other assets	302,406	
	-----	-----
Total assets	\$28,860,860	\$2
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facilities	\$ 1,195,076	\$
Accounts payable	3,580,796	
Accrued expenses and other current liabilities	1,215,905	
Litigation settlement liabilities	170,000	
Current maturities of long-term debt and capital lease obligations	288,688	
	-----	-----
Total current liabilities	6,450,465	
Long-term debt and capital lease obligations	1,252,373	
Deferred income	490,377	
Minority interest	206,130	
Stockholders' equity:		
Common stock, \$.01 par value-shares authorized 10,000,000; 6,718,665 issued, 6,644,365 outstanding	67,186	
Additional paid-in capital	22,701,711	2
Retained deficit	(1,856,861)	(
Treasury stock, 74,300 shares	(401,974)	
Accumulated other comprehensive loss	(48,547)	
	-----	-----
Total stockholders' equity	20,461,515	1
	-----	-----
Total liabilities and stockholders' equity	\$28,860,860	\$2
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	FOR THE SIX MONTHS ENDED DECEMBER 31,	
	2002	2001
	-----	-----
Net sales	\$15,184,835	\$14,326,058
Cost of goods sold	8,822,459	7,815,551
	-----	-----
Gross profit	6,362,376	6,510,507
Operating expenses:		
Selling expenses	2,032,563	2,057,488
General and administrative expenses	3,152,131	3,005,710
Research and development expenses	1,015,888	964,197
Litigation (recovery) settlement expenses	(152,628)	-
	-----	-----
Total operating expenses	6,047,954	6,027,395
	-----	-----
Income from operations	314,422	483,112
Other income (expense):		
Interest income	41,398	244,923
Interest expense	(87,480)	(71,860)
Option/license fees	12,156	12,156
Royalty income	248,645	441,137
Foreign exchange gain	2,245	(259)
Loss on impairment of Hearing Innovations, Inc.	(182,907)	(214,640)
Loss on impairment of Focus Surgery, Inc.	(13,725)	(326,702)
	-----	-----
Total other income	20,332	84,755
Income before minority interest and income taxes	334,754	567,867
Minority interest in net income of consolidated subsidiaries	33,836	30,730
	-----	-----
Income before income taxes	368,590	598,597
Income tax expense	204,392	381,032
	-----	-----
Net income	\$ 164,198	\$ 217,565
	=====	=====
Net income per share-Basic	\$.03	\$.04
	=====	=====

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Net income per share - Diluted	\$.03	\$.03
	=====	=====
Weighted average common shares outstanding - Basic	6,308,526	6,053,965
	=====	=====
Weighted average common shares outstanding - Diluted	6,554,421	6,530,789
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	FOR THE THREE MONTHS ENDED	
	DECEMBER 31,	DECEMBER 31,
	2002	2001
	-----	-----
Net sales	\$8,174,513	\$7,503,537
Cost of goods sold	4,769,355	4,178,202
	-----	-----
Gross profit	3,405,158	3,325,335
Operating expenses:		
Selling expenses	1,096,960	1,027,543
General and administrative expenses	1,632,258	1,518,178
Research and development expenses	476,562	504,942
Litigation (recovery) settlement expenses	(25,326)	-
	-----	-----
Total operating expenses	3,180,454	3,050,663
	-----	-----
Income from operations	224,704	274,672
Other income (expense):		
Interest income	2,684	98,372
Interest expense	(44,503)	(35,965)
Option/license fees	6,078	12,156
Royalty income	126,000	147,782
Foreign exchange gain	(1,038)	(1,231)
Loss on impairment of Hearing Innovations, Inc.	(84,000)	(105,153)
Loss on impairment of Focus Surgery, Inc.	-	(14,106)
	-----	-----
Total other income	5,221	101,855
Income before minority interest and income taxes	229,925	376,527
Minority interest in net income of consolidated subsidiaries	40,553	42,916
	-----	-----

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Income before income taxes	270,478	419,443
Income tax expense	157,437	158,823
	-----	-----
Net income	\$ 113,041	\$ 260,620
	=====	=====
Net income per share-Basic	\$.02	\$.04
	=====	=====
Net income per share - Diluted	\$.02	\$.04
	=====	=====
Weighted average common shares outstanding - Basic	6,511,188	6,052,755
	=====	=====
Weighted average common shares outstanding - Diluted	6,598,096	6,585,953
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	FOR THE SIX MONTHS DECEMBER 31,	
	2002	2001
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 164,198	\$ 260,620
Adjustments to reconcile net income to net cash used in operating activities:		
Bad debt expense	29,530	(1,398)
Litigation recovery	(152,628)	(1,398)
Deferred income tax expense	(19,398)	(1,398)
Depreciation and amortization	327,684	327,684
Loss on disposal of equipment	66,873	66,873
Deferred income	39,304	(1,398)
Foreign currency exchange gain	(2,245)	(2,245)
Minority interest in net income of subsidiaries	(33,836)	(33,836)
Loss on impairment of investments	196,632	196,632
Changes in operating assets and liabilities:		
Accounts receivable	(1,483)	(1,483)
Inventories	(1,269,619)	(1,269,619)
Prepaid income taxes	657,914	657,914
Prepaid expenses and other current assets	(7,662)	(7,662)
Other assets	160,842	160,842
Accounts payable and accrued expenses	192,804	192,804
Litigation settlement liabilities	(4,332)	(4,332)
Income taxes payable	(36,292)	(36,292)
	-----	-----
Net cash provided by operating activities	308,286	308,286

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INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(267,025)	(1)
Purchase of Labcaire stock	(232,394)	(
Redemption of investments held to maturity	-	2,0
Purchase of convertible debentures - Focus Surgery, Inc.	-	(3
Loans to Focus Surgery, Inc.	-	(
Loans to Hearing Innovations, Inc.	(159,666)	(2
Net cash (used in) provided by investing activities	(659,085)	1,2
FINANCING ACTIVITIES		
Proceeds from (payments of) short-term borrowings, net	360,815	2
Principal payments on capital lease obligations	(134,008)	(1
Proceeds from long-term debt	11,409	
Payments of long-term debt	(10,754)	(
Proceeds from exercise of stock options	393,104	
Purchase of treasury stock	-	(
Net cash provided by financing activities	620,566	1
Effect of exchange rate changes on assets and liabilities	(4,299)	
Net increase in cash and cash equivalents	265,468	1,8
Cash and cash equivalents at beginning of year	1,065,465	3,7
Cash and cash equivalents at end of year	\$ 1,330,933	\$5,6
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for (received from):		
Interest	\$ 87,480	\$
Income taxes	\$ (531,213)	\$ 3
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital lease additions	\$ 237,785	\$

See accompanying Notes to Consolidated Financial Statements.

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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 generally accepted accounting principles for complete financial statements. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2002 are not necessarily

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indicative of the results that may be expected for the year ending June 30, 2003.

The balance sheet at June 30, 2002 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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, 2002.

2. Acquisition

Labcaire Systems Ltd.

 In October 2002, under the terms of the revised purchase agreement (the "Labcaire Agreement") with Labcaire (as discussed in the Company's Annual Report on Form 10-K for the year ended June 30, 2002), the Company paid \$232,394 for 9,286 shares (2.70%) of the outstanding common stock of Labcaire bringing the acquired interest to 100%. This represents the fiscal 2003 buy-back, as defined in the Labcaire Agreement.

3. Inventories

 Inventories are summarized as follows:

	DECEMBER 31, 2002		June 30, 2002
	-----		-----
Raw materials	\$ 4,442,882	\$	3,701,925
Work-in-process	1,478,587		824,289
Finished goods	2,896,059		2,644,630
	-----		-----
	\$ 8,817,528	\$	7,170,844
	=====		=====

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MISONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information with respect to interim periods is unaudited) (CONTINUED)

=====

4. Accrued Expenses and Other Current Liabilities

 The following summarizes accrued expenses and other current liabilities:

	DECEMBER 31, 2002		June 30, 2002
	-----		-----
Accrued payroll and vacation	\$ 153,819	\$	165,350
Accrued sales tax	21,228		7,262
Accrued commissions and bonuses	18,737		216,343

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Customer deposits and deferred contracts	750,646	526,560
Accrued professional fees	138,622	229,750
Warranty	69,868	68,000
Other	62,985	91,559
	-----	-----
	\$ 1,215,905	\$ 1,304,824
	=====	=====

5. Loans to Affiliates

Hearing Innovations, Inc.

During fiscal 2003, the Company entered into seven loan agreements whereby Hearing Innovations, Inc. ("Hearing Innovations") is required to pay the Company an aggregate amount of \$159,666 due November 30, 2003. All notes bear interest at 8% per annum. The notes are secured by a lien on all of Hearing Innovations' right, title and interest in accounts receivable, inventory, property, plant and equipment and processes of specified products whether now existing or arising after the date of these agreements. The loan agreements contain warrants to acquire 159,666 shares of Hearing Innovations common stock, at the option of the Company, at a cost of \$.10 to \$1.00 per share. These warrants, which are deemed nominal in value, expire in October 2005. The Company recorded an allowance against the entire balance of \$159,666 for the above loans. The related expense has been included in loss on impairment of investments in the accompanying consolidated statements of operations. The Company believes the loans and related interest are impaired since the Company does not anticipate that these loans will be paid in accordance with the contractual terms of the loan agreements.

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MISONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information with respect to interim periods is unaudited) (CONTINUED)

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6. Business Segments

The Company operates in two business segments which are organized by product types: industrial products and medical devices. Industrial products include the Sonicator ultrasonic liquid processor, Aura ductless fume enclosure, the Autoscope and Guardian endoscope disinfectant systems from Labcaire and the Mystaire wet scrubber. Medical devices include the Auto Sonix ultrasonic cutting and coagulatory system, refurbishing of high-performance ultrasound systems and replacement transducers for the medical diagnostic ultrasound industry, ultrasonic lithotripter, ultrasonic neuroaspirator, used for neurosurgery, and soft tissue aspirator, used primarily for the cosmetic surgery market. The Company evaluates the performance of the segments based upon income from operations before general and administrative expenses and litigation (recovery) settlement expenses. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 1) in the Company's Annual Report on Form 10-K for the year ended June 30, 2002. Certain items are maintained at the corporate headquarters (corporate) and are not allocated to the segments. They primarily include general and

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administrative expenses and litigation (recovery) settlement expenses. The Company does not allocate assets by segment. Summarized financial information for each of the segments are as follows:

For the six months ended December 31, 2002:

	MEDICAL DEVICES	INDUSTRIAL PRODUCTS	(a) CORPORATE AND UNALLOCATED	TOTAL
Net sales	\$7,211,580	\$ 7,973,255	\$ -	\$15,184,835
Cost of goods sold	4,082,186	4,740,273	-	8,822,459
Gross profit	3,129,394	3,232,982	-	6,362,376
Selling expenses	643,680	1,388,883	-	2,032,563
Research and development expenses	690,853	325,035	-	1,015,888
Total operating expenses	1,334,533	1,713,918	2,999,503	6,047,954
Income from operations	\$1,794,861	\$ 1,519,064	\$ (2,999,503)	\$ 314,422

(a) Amount represents general and administrative and litigation (recovery) settlement expenses.

For the three months ended December 31, 2002:

	Medical Devices	Industrial Products	(a) Corporate and Unallocated	Total
Net sales	\$ 4,042,908	\$ 4,131,605	\$ -	\$8,174,513
Cost of goods sold	2,238,416	2,530,939	-	4,769,355
Gross profit	1,804,492	1,600,666	-	3,405,158
Selling expenses	376,055	720,905	-	1,096,960
Research and development expenses	307,832	168,730	-	476,562
Total operating expenses	683,887	889,635	1,606,932	3,180,454
Income from operations	\$ 1,120,605	\$ 711,031	\$ (1,606,932)	\$ 224,704

(a) Amount represents general and administrative and litigation (recovery) settlement expenses.

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(Information with respect to interim periods is unaudited) (CONTINUED)

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For the six months ended December 31, 2001:

	Medical Devices	Industrial Products	(a) Corporate and Unallocated	Total
	-----	-----	-----	-----
Net sales	\$ 5,804,101	\$ 8,521,957	\$ -	\$14,326,058
Cost of goods sold	3,152,693	4,662,858	-	7,815,551
	-----	-----		-----
Gross profit	2,651,408	3,859,099	-	6,510,507
Selling expenses	462,045	1,595,443	-	2,057,488
Research and development expenses	678,589	285,608	-	964,197
	-----	-----		-----
Total operating expenses	1,140,634	1,881,051	3,005,710	6,027,395
	-----	-----	-----	-----
Income from operations	\$ 1,510,774	\$ 1,978,048	\$ (3,005,710)	\$ 483,112
	=====	=====	=====	=====