

MISONIX INC

Form 10-Q

May 15, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(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, 2006

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.**

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(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

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(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

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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

Accelerated filer

Non-accelerated filer

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 practical date:

Class of Common Stock	Outstanding at May 9, 2006
Common Stock, \$.01 par value	6,900,369

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

	March 31, 2006 (unaudited)	June 30, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 606,155	\$ 2,484,534
Accounts receivable, less allowance for doubtful accounts of \$501,581 and \$405,998, respectively	7,195,229	11,757,827
Inventories	11,365,341	9,780,501
Income tax receivable	1,073,292	224,734
Deferred income taxes	1,093,740	964,426
Prepaid expenses and other current assets	1,464,073	1,336,104
<b>Total current assets</b>	<b>22,797,830</b>	<b>26,548,126</b>
Property, plant and equipment, net	6,205,689	6,409,835
Deferred income taxes	37,903	244,769
Goodwill	4,473,713	4,473,713
Other assets	480,240	409,493
<b>Total assets</b>	<b>\$ 33,995,375</b>	<b>\$ 38,085,936</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Revolving credit facilities	\$ 1,483,786	\$ 1,883,193
Accounts payable	4,647,504	5,482,313
Accrued expenses and other current liabilities	2,401,235	2,901,247
Current maturities of long-term debt and capital lease obligations	345,544	376,148
<b>Total current liabilities</b>	<b>8,878,069</b>	<b>10,642,901</b>
Long-term debt and capital lease obligations	1,164,531	1,240,324
Deferred income taxes	—	270,884
Deferred income	373,422	508,582
Minority interest	341,744	329,085
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value—shares authorized 10,000,000; 6,978,169 and 6,902,752 issued, and 6,900,369 and 6,824,952 outstanding, respectively	69,782	69,028
Additional paid-in capital	24,479,939	23,619,281
Retained (deficit) earnings	(1,040,420)	1,601,166
Treasury stock, 77,800 shares	(412,424)	(412,424)
Accumulated other comprehensive income	140,732	217,109
<b>Total stockholders' equity</b>	<b>23,237,609</b>	<b>25,094,160</b>

Total liabilities and stockholders' equity	\$	<b>33,995,375</b>	\$	38,085,936
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*See Accompanying Notes to Consolidated Financial Statements.*

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

	For the nine months ended March 31	
	2006	2005
Net sales	\$ 29,549,736	\$ 32,016,885
Cost of goods sold	18,296,682	18,610,337
Gross profit	11,253,054	13,406,548
Operating expenses:		
Selling expenses	5,014,110	4,407,551
General and administrative expenses	7,528,168	6,026,911
Research and development expenses	2,739,043	2,540,070
Total operating expenses	15,281,321	12,974,532
(Loss) income from operations	(4,028,267)	432,016
Other income (expense):		
Interest income	65,857	45,194
Interest expense	(168,629)	(165,457)
Royalty income and license fees net of royalty expense of (\$75,775) and (\$40,756)	571,769	689,011
Other	(10,663)	(19,744)
Total other income	458,334	549,004
(Loss) income before minority interest and income taxes	(3,569,933)	981,020
Minority interest in net income of consolidated subsidiary	12,659	56,329
(Loss) income before income taxes	(3,582,592)	924,691
Income tax (benefit) expense	(941,006)	326,727
Net (loss) income	(\$2,641,586)	\$ 597,964
Net (loss) income per share - Basic	(\$ .39)	\$ .09
Net (loss) income per share - Diluted	(\$ .39)	\$ .09
Weighted average common shares outstanding - Basic	6,857,924	6,776,137
Weighted average common shares outstanding - Diluted	6,857,924	6,981,837

*See Accompanying Notes to Consolidated Financial Statements.*



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

	For the three months ended March 31,	
	2006	2005
Net sales	\$ 10,169,778	\$ 10,879,607
Cost of goods sold	6,216,776	6,330,457
Gross profit	3,953,002	4,549,150
Operating expenses:		
Selling expenses	1,765,639	1,476,236
General and administrative expenses	2,502,626	2,284,786
Research and development expenses	975,307	918,112
Total operating expenses	5,243,572	4,679,134
(Loss) from operations	(1,290,570)	(129,984)
Other income (expense):		
Interest income	17,742	15,462
Interest expense	(54,019)	(52,735)
Royalty income and license fees net of royalty expense of (\$38,376) and (\$24,056)	177,702	241,715
Other	2,718	(9,331)
Total other income	144,143	195,111
(Loss) income before minority interest and income taxes	(1,146,427)	65,127
Minority interest in net (loss) income of consolidated subsidiary	( 6,465)	29,083
(Loss) income before income taxes	(1,139,962)	36,044
Income tax (benefit) expense	(310,844)	32,683
Net (loss) income	(\$829,118)	\$ 3,361
Net (loss) income per share - Basic	(\$ .12)	\$ ¾
Net (loss) income per share - Diluted	(\$ .12)	\$ ¾
Weighted average common shares outstanding - Basic	6,884,169	6,812,673
Weighted average common shares outstanding - Diluted	6,884,169	7,037,501

*See Accompanying Notes to Consolidated Financial Statements.*



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

	<b>For the nine months ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities</b>		
Net (loss) income	(\$2,641,586)	\$ 597,964
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Bad debt expense (recovery)	209,084	(12,560)
Deferred income tax benefit	(169,554)	9,874
Depreciation and amortization	941,681	628,555
Loss on disposal of equipment	141,857	153,552
Minority interest in net income of subsidiaries	12,369	56,329
Stock option compensation	440,060	¾
Other	6,131	19,744
Changes in operating assets and liabilities:		
Accounts receivable	4,166,860	(374,014)
Inventories	(1,633,752)	(1,561,418)
Income taxes receivable	(771,716)	¾
Prepaid expenses and other current assets	(141,308)	(405,585)
Other assets	(98,064)	(115,010)
Accounts payable and accrued expenses	(1,103,063)	(100,476)
Deferred income	(135,160)	(135,585)
Income taxes payable	¾	(36,502)
Net cash used in operating activities	(776,161)	(1,275,132)
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(737,690)	(560,329)
Net cash used in investing activities	(737,690)	(560,329)

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

<b>Financing activities</b>			
Proceeds from short-term borrowings	672,746		437,279
Payments of short-term borrowings	(1,008,686)		(398,114)
Principal payments on capital lease obligations	(325,087)		(255,090)
Proceeds from stock options	381,511		349,117
Income tax benefit - stock options	(39,841)		¾
Payments of long-term debt	(44,039)		(42,753)
Net cash (used in) provided by financing activities	(363,396)		90,439
<b>Effect of exchange rate changes on cash</b>			
	(1,132)		(34,020)
Net decrease in cash and cash equivalents	(1,878,379)		(1,779,042)
Cash and cash equivalents at beginning of period	2,484,534		4,839,866
Cash and cash equivalents at end of period	\$ 606,155	\$	3,060,824
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for			
Interest	\$ 168,629	\$	165,457
Income taxes	\$ 40,804	\$	351,227
<b>Supplemental disclosure of noncash investing and financing activities:</b>			
Capital lease additions	\$ 319,657	\$	397,685

*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 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 three and nine months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2006.

The balance sheet at June 30, 2005 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, 2005.

2. Net (Loss) Income Per Share

Basic (loss) income per common share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Dilutive earnings 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, 2006, dilutive weighted average common shares outstanding of 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. The following table sets forth the reconciliation of weighted average shares outstanding and diluted weighted average shares outstanding:

	For the Nine Months Ended March 31,		For the Three Months Ended March 31,	
	2006	2005	2006	2005
Weighted average common shares outstanding	6,857,924	6,776,137	6,884,169	6,812,673
Dilutive effect of stock options	$\frac{3}{4}$	205,700	$\frac{3}{4}$	224,828
Diluted weighted average common shares outstanding	6,857,924	6,981,837	6,884,169	7,037,501

3. Comprehensive Income

Total comprehensive (loss) income was (\$2,717,963) and (\$817,166) for the nine and three months ended March 31, 2006, respectively, and \$713,774 and \$56,015 for the nine and three months ended March 31, 2005, respectively. The components of comprehensive (loss) income are net (loss) income and foreign currency translation adjustments.

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

4. Stock-Based Compensation

Prior to July 1, 2005, the Company accounted for stock option plans under Statement of Financial Accounting Standards ("SFAS") No. 123 ("SFAS No. 123"). As permitted under this standard, compensation cost was recognized using the intrinsic value method described in Accounting Principles Board Opinion No. 25 ("APB 25"). Effective July 1, 2005, the Company adopted the fair-value recognition provisions of SFAS No. 123R ("SFAS No. 123R") and Securities and Exchange Commission Staff Accounting Bulletin No. 107 using the modified-prospective transition method; therefore, prior periods have not been restated. Compensation cost recognized in the nine and three-month periods ended March 31, 2006 includes compensation cost for all share-based payments 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, and compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

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, 2006 and 2005, the Company granted options to purchase 89,560 and 293,500 shares of the Company's common stock, respectively.

No stock-based compensation cost related to stock options was recognized in the statements of operations for the years ended June 30, 2005 and 2004 as all options granted in these periods had an exercise price equal to the market price at the date of grant. As a result of adopting SFAS No. 123R, the Company's loss before income taxes and net loss for the nine months ended March 31, 2006 were approximately \$440,000 and \$349,000 higher, respectively, than if we had continued to account for stock-based compensation under APB No. 25. Loss before income taxes and net loss for the three months ended March 31, 2006 were \$66,000 and \$61,000 higher, respectively, as a result of adopting SFAS No. 123R. 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. There are no capitalized stock-based compensation costs at March 31, 2006 and 2005. Basic and dilutive loss per share for the nine and three-month periods ended March 31, 2006 would have been (\$.33) and (\$.11), respectively, if the Company had not adopted SFAS No. 123R, compared to the reported basic and dilutive loss per share of (\$.39) and (\$.12), respectively. As of March 31, 2006, there was approximately \$355,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements to be recognized over a weighted-average period of 3 years.

The total cash received from the exercise of stock options was \$381,511 and \$349,117 for the nine-month periods ended March 31, 2006 and 2005, 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.

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

The fair values of the options granted during the nine-month periods ended March 31, 2006 and 2005 were estimated on the dates of their grants using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions:

	March 31, 2006	March 31, 2005
Risk-free interest rate	4.43%	3.75%
Expected life	5.7 years	5 years
Expected volatility	54.7%	86.5%
Expected dividend yield	0%	0%
Weighted-average fair value of options granted	\$ 3.82	\$ 4.40

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 issued dividends and does not expect to issue any in the future.

Changes in outstanding options are as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at June 30, 2005	1,908,075	\$ 5.66	
Granted	89,560	7.20	
Exercised	(75,417)	5.06	\$ 117,171
Forfeited	(73,460)	6.52	
Options outstanding at March 31, 2006	1,848,758	\$ 5.72	\$ 1,959,662
Options vested at March 31, 2006	1,695,019		\$ 1,728,919
Options available for grant at March 31, 2006	903,293		
Weighted average remaining contractual term	7 years		

On December 14, 2005, the shareholders approved the adoption of the 2005 Employee Equity Incentive Plan (“Employee Plan”) and the 2005 Non-Employee Director Stock Option Plan (“Director’s Plan”). The Employee Plan makes 500,000 shares available for issuance. The Employee Plan permits the Company to grant either incentive stock options or non-qualified stock options. The exercise price will not be less than fair market value on the date of grant. The Employee Plan also permits the Company to grant restricted stock or restricted stock units. Restricted stock and restricted stock units will generally be subject to vesting and non-transferability restrictions that will lapse upon achievement of one or more goals relating to the completion of service by the participant, or the achievement of performance or other objectives determined by the Committee at the time of grant.

The Director’s Plan makes 200,000 shares available for issuance. Under the Director’s Plan, the exercise price will not be less than 100% of the fair market value of the common stock as of the date the option is granted. Options expire ten years from the date of grant.

The table below presents the pro forma effect on net income and basic and diluted loss per share if the Company had applied the fair value recognition provision to options granted under its stock option plans

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

for the nine and three-month periods ended March 31, 2006. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option-pricing model and amortized to expense over the options' vesting periods. If the Company had adopted the fair value based method for the nine and three months ended March 31, 2005, additional compensation expense of approximately \$1,082,000 and \$495,000, respectively, would have been recognized in the statements of operations.

	Nine-month period ended March 31, 2005	Three-month period ended March 31, 2005
Net income - As reported:	\$ 597,964	\$ 3,361
Stock based compensation determined under SFAS No. 123 net of income tax	(692,357)	(327,498)
Net income (loss) - Pro forma:	(\$ 94,393)	(\$324,137)
Net income (loss) per share -		
Basic:		
As reported	\$ .09	\$ ---
Pro forma	(\$ .01)	(\$ .05)
Net income (loss) per share -		
Diluted:		
As reported	\$ .09	\$ ---
Pro forma	(\$ .01)	(\$ .05)

5. Inventories

Inventories are summarized as follows:

	March 31, 2006	June 30, 2005
Raw material	\$ 4,902,191	\$ 5,303,581
Work-in-process	2,309,740	1,643,835
Finished goods	4,153,410	2,833,085
	\$ 11,365,341	\$ 9,780,501

6. Debt

The Company has a revolving credit facility with the Bank of America (the "Bank") to support future working capital needs. The revolving credit facility has interest rate options ranging from Libor plus 1.0% per annum to prime rate .25% per annum and expires on January 18, 2008. This facility is secured by the assets of the Company. The terms provide for the repayment of the debt in full on its maturity date. Certain financial covenants of the facility were amended effective February 14, 2006. The Company was not in compliance with these amended loan covenants at March 31, 2006. The Bank reduced the maximum amount available under the line of credit to \$2,500,000 from \$6,000,000 and issued a waiver for such non-compliance.

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

	<b>March 31, 2006</b>	June 30, 2005
Customer deposits and deferred contracts	\$ <b>652,996</b>	\$ 1,121,741
Accrued payroll and vacation	<b>393,227</b>	356,850
Accrued commissions and bonuses	<b>355,978</b>	255,400
Accrued professional fees	<b>161,266</b>	226,235
Accrued VAT and sales tax	<b>134,704</b>	246,170
Litigation	<b>419,000</b>	419,000
Other	<b>284,064</b>	275,851
	<b>\$ 2,401,235</b>	<b>\$ 2,901,247</b>

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

8. Business Segments

The Company operates in two business segments which are organized by product types: medical devices and laboratory and scientific products. Medical devices 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 lithotripter, 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 Autoscope 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. 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, 2005. 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 and Labcaire 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, 2006:

	<b>Medical Device Products</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 15,526,996	\$ 14,022,740	\$ 3/4	\$ 29,549,736
Cost of goods sold	8,967,482	9,329,200	3/4	18,296,682
Gross profit	6,559,514	4,693,540	3/4	11,253,054
Selling expenses	3,127,838	1,886,272	3/4	5,014,110
Research and development expenses	1,686,533	1,052,510	3/4	2,739,043
General and administrative	3/4	3/4	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:

	<b>Medical Device Products</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 5,082,180	\$ 5,087,598	\$ 3/4	\$ 10,169,778
Cost of goods sold	2,856,373	3,360,403	3/4	6,216,776
Gross profit	2,225,807	1,727,195	3/4	3,953,002
Selling expenses	1,237,229	528,410	3/4	1,765,639
Research and development expenses	587,535	387,772	3/4	975,307
General and administrative	3/4	3/4	2,502,626	2,502,626

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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)

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

For the nine months ended March 31, 2005:

	<b>Medical Device Products</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 17,317,800	\$ 14,699,085	\$ 3/4	\$ 32,016,885
Cost of goods sold	9,621,898	8,988,439	3/4	18,610,337
Gross profit	7,695,902	5,710,646	3/4	13,406,548
Selling expenses	2,284,383	2,123,168	3/4	4,407,551
Research and development expenses	1,816,253	723,817	3/4	2,540,070
General and administrative	3/4	3/4	6,026,911	6,026,911
Total operating expenses	4,100,636	2,846,985	6,026,911	12,974,532
			(\$	
Income (loss) from operations	\$ 3,595,266	\$ 2,863,661	6,026,911)	\$ 432,016

For the three months ended March 31, 2005:

	<b>Medical Device Products</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 5,666,421	\$ 5,213,186	\$ 3/4	\$ 10,879,607
Cost of goods sold	3,083,901	3,246,556	3/4	6,330,457
Gross profit	2,582,520	1,966,630	3/4	4,549,150
Selling expenses	770,968	705,268	3/4	1,476,236
Research and development expenses	640,498	277,614	3/4	918,112
General and administrative	3/4	3/4	2,284,786	2,284,786
Total operating expenses	1,411,466	982,882	2,284,786	4,679,134
			(\$	
Income (loss) from operations	\$ 1,171,054	\$ 983,748	2,284,786)	(\$ 129,984)

The Company's revenues are generated from various geographic regions. The following is an analysis of net sales by geographic region:

For the nine months ended March 31:

	<b>2006</b>	<b>2005</b>
United States	\$ 18,629,700	\$ 19,806,026
United Kingdom	6,915,710	7,389,117
Europe	1,748,641	2,419,255
Asia	1,031,670	775,694
Canada	515,986	707,669

Middle		
East	<b>268,640</b>	<b>372,683</b>
Other	<b>439,389</b>	<b>546,441</b>
	<b>\$ 29,549,736</b>	<b>\$ 32,016,885</b>

9.

Subsequent Event

In April 2006, Misonix Ltd., a wholly-owned subsidiary of the Company, acquired a 60% ownership interest in the Company's UK distributor, UK-HIFU Limited, for the purchase price of \$200,000.

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**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, 2006 and 2005.

Net sales. Net sales decreased \$2,467,149 to \$29,549,736 for the nine months ended March 31, 2006 from \$32,016,885 for the nine months ended March 31, 2005. This difference in net sales was due to a decrease in sales of medical device products of \$1,790,804 to \$15,526,996 for the nine months ended March 31, 2006 from \$17,317,800 for the nine months ended March 31, 2005. The decrease in medical device products revenues was attributable to a 26% reduction in therapeutic medical device products revenues to \$6.8 million, partially offset by a 7.5% increase in diagnostic medical device products revenues to \$8.7 million. Decreased sales of therapeutic medical device products was primarily due to a \$1,200,000 decrease in sales of Auto Sonix ultrasonic cutting and coagulatory systems due to volume decrease and a price reduction agreed to in a new 3-year manufacturing agreement which reduces the price to United States Surgical ("USS") for new ultrasonic generation systems. Sales of ultrasonic surgical aspirator systems decreased \$850,000. This difference in net sales is also due to a decrease in sales of laboratory and scientific products of \$676,345 to \$14,022,740 for the nine months ended March 31, 2006 from \$14,699,085 for the nine months ended March 31, 2005. The decrease in sales of laboratory and scientific products was substantially due to a decrease in sales of ductless fume enclosure products of \$493,000 and Labcaire Systems Limited ("Labcaire") sales of \$775,000, partially offset by an increase in laboratory ultrasonic product sales of \$600,000. The decrease in Labcaire sales is primarily due to a reduction in sales of the Guardian (endoscopic cleaning) product, due to a temporary slow-down from the National Health System. Export sales from the United States are remitted in U.S. Dollars and export sales for Labcaire are remitted in English Pounds. During the nine months ended March 31, 2006 and 2005, the Company had foreign net sales of \$10,920,036 and \$12,210,859, respectively, representing 37% and 38% of net sales, respectively. The decrease in foreign sales during the nine months ended March 31, 2006 as compared to the nine months ended March 31, 2005 was due to decreased Labcaire sales and decreased sales of therapeutic and diagnostic medical device products to Europe and Canada. Labcaire represented 71% and 70% of foreign net sales during the nine months ended March 31, 2006 and 2005, respectively. The remaining 29% and 30% represents net foreign sales remitted in U.S. Dollars during the nine months ended March 31, 2006 and 2005, respectively. Approximately 26% of the Company's revenues for the nine months ended March 31, 2006 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 weighted average rates of 1.76 and 1.86 for the nine months ended March 31, 2006 and 2005, respectively. A strengthening of the English Pound, in relation to the U.S. Dollar, will have the effect of increasing reported revenues and profits, while a weakening of the English Pound will have the opposite effect. Since the Company's operations in England generally set 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.

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

The Company's revenues are generated from various products regions. The following is an analysis of net sales by geographic region:

For the nine months ended March 31:

	2006	2005
United States	\$ 18,629,700	\$ 19,806,026
Canada	515,986	707,669
United Kingdom	6,915,710	7,389,117
Europe	1,748,641	2,419,255
Asia	1,031,670	775,694
Middle East	268,640	372,683
Other	439,389	546,441
	\$ 29,549,736	\$ 32,016,885

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

Summarized financial information for each of the segments for the nine months ended March 31, 2006 and 2005 are as follows:

For the nine months ended March 31, 2006:

	<b>Medical</b>	<b>Laboratory and</b>	<b>Corporate and</b>	
	<b>Device Products</b>	<b>Scientific Products</b>	<b>Unallocated</b>	<b>Total</b>
Net sales	\$ 15,526,996	\$ 14,022,740	\$ 3/4	\$ 29,549,736
Cost of goods sold	8,967,482	9,329,200	3/4	18,296,682
Gross profit	6,559,514	4,693,540	3/4	11,253,054
Selling expenses	3,127,838	1,886,272	3/4	5,014,110
Research and development expenses	1,686,533	1,052,510	3/4	2,739,043
General and administrative	3/4	3/4	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 nine months ended March 31, 2005:

	<b>Medical</b>	<b>Laboratory and</b>	<b>Corporate and</b>	
	<b>Device Products</b>	<b>Scientific Products</b>	<b>Unallocated</b>	<b>Total</b>
Net sales	\$ 17,317,800	\$ 14,699,085	\$ 3/4	\$ 32,016,885
Cost of goods sold	9,621,898	8,988,439	3/4	18,610,337
Gross profit	7,695,902	5,710,646	3/4	13,406,548
Selling expenses	2,284,383	2,123,168	3/4	4,407,551
Research and development expenses	1,816,253	723,817	3/4	2,540,070
General and administrative	3/4	3/4	6,026,911	6,026,911
Total operating expenses	4,100,636	2,846,985	6,026,911	12,974,532
			(\$	
Income from operations	\$ 3,595,266	\$ 2,863,661	6,026,911)	\$ 432,016

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

**Gross profit:** Gross profit decreased to 38.1% as a percentage of sales for the nine months ended March 31, 2006 from 41.9% for the nine months ended March 31, 2005. Gross profit for medical device products decreased to 42.2% of sales in the nine months ended March 31, 2006 from 44.4% of sales in the nine months ended March 31, 2005. The decrease in gross profit for medical device products was negatively impacted by decreased volume, price reduction for Auto Sonix systems to USS and an unfavorable mix of high and low margin product deliveries. Gross profit for laboratory and scientific products decreased to 33.5% for the nine months ended March 31, 2006 from 38.9% for the nine months ended March 31, 2005. The decrease in gross profit for laboratory and scientific products was due to a decrease in gross profit margin for Labcaire, which was attributable to higher discounts to win business of Guardian endoscopic units, and decreased margins for wet scrubbers due to higher than expected costs on several jobs shipped this year. The Company manufactures and sells both medical device and laboratory and scientific products with a wide range of product costs and gross margin dollars as a percentage of revenues.

**Selling expenses:** Selling expenses increased \$606,559 to \$5,014,110 for the nine months ended March 31, 2006 from \$4,407,551 for the nine months ended March 31, 2005. Medical device products selling expenses increased \$843,455, predominantly due to increased personnel expenses related to sales of diagnostic medical device products and increased clinical trial expense related to high intensity focused ultrasound (HIFU) therapeutic medical device products. Laboratory and scientific products selling expenses decreased \$236,896, predominantly due to a decrease in marketing expenses and employees for the Company's fume enclosure and Labcaire products.

**General and administrative expenses:** General and administrative expenses increased \$1,501,257 from \$6,026,911 in the nine months ended March 31, 2005 to \$7,528,168 in the nine months ended March 31, 2006. The implementation of SFAS No. 123R (as hereinafter defined), which requires companies to measure and record compensation cost for all share-based payments, increased general and administrative expenses by \$440,000 in the March 2006 period. Other expense increases were: insurance, \$164,000; rent, \$100,000; utilities, \$44,000; and additional personnel costs of approximately \$300,000. In addition, bad debt expense was approximately \$213,000 higher in the March 2006 period than the March 2005 period, due to the decrease in the 2005 period in the allowance for doubtful accounts specifically related to a reserve established against Focus Surgery, Inc. ("Focus Surgery") which was no longer needed.

**Research and development expenses:** Research and development expenses increased \$198,973 from \$2,540,000 for the nine months ended March 31, 2005 to \$2,739,043 for the nine months ended March 31, 2006. Laboratory and scientific products research and development expenses increased approximately \$329,000 due to new product designs at Labcaire. Research and development expenses for medical device products decreased approximately \$130,000. Therapeutic medical device products research and development expenses decreased approximately \$208,000, primarily due to decreased consulting fees to Focus Surgery for the liver/kidney product. Research and development expenses for diagnostic medical device products increased approximately \$78,000 related to developing new products which are expected to be introduced during the current fiscal year.

**Other income (expense):** Other income for the nine months ended March 31, 2006 was \$458,334 as compared to \$549,004 for the nine months ended March 31, 2005. The decrease of \$90,670 was primarily due to decreased royalty income of \$82,000 and increased royalty expense of \$35,000, which was partially offset by increased interest income of \$21,000.

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

**Income taxes:** The effective tax rate was 26.3% for the nine months ended March 31, 2006, as compared to an effective tax rate of 35.3% for the nine months ended March 31, 2005. The estimated effective tax rate for fiscal 2006 is lower than the statutory rate due to permanent tax items, such as the R&D credit and the extra territorial income exclusion, and lower tax rates in the United Kingdom, where Labcaire is domiciled.

Three Months Ended March 31, 2006 and 2005.

**Net sales:** Net sales of the Company's medical device products and laboratory and scientific products decreased \$709,829 to \$10,169,778 for the three months ended March 31, 2006 from \$10,879,607 for the three months ended March 31, 2005. This difference is due to a decrease in sales of laboratory and scientific products of \$125,588 to \$5,087,598 for the three months ended March 31, 2006 from \$5,213,186 for the three months ended March 31, 2005. This difference in net sales is also due to a decrease in sales of medical device products of \$584,241 to \$5,082,180 for the three months ended March 31, 2006 from \$5,666,421 for the three months ended March 31, 2005. The decrease in laboratory and scientific products sales is due to a decrease in Labcaire sales of \$442,728, partially offset by an increase in ultrasonic laboratory sales of \$163,048 and wet scrubber sales of \$160,100. The decrease in sales of medical device products is due to a decrease in sales of therapeutic medical device products of \$315,813 and a decrease in sales of diagnostic medical device products of \$268,428. The decrease in sales of therapeutic medical device products was mostly attributable to a decrease in surgical aspirator sales of approximately \$123,000 and lithotripter sales of \$130,000. The decrease in sales of diagnostic medical products was not attributable to a single customer, distributor or any other specific factor. Export sales from the United States are remitted in U.S. Dollars and export sales for Labcaire are remitted in English Pounds. During the three months ended March 31, 2006 and 2005, the Company had foreign net sales of \$4,190,889 and \$4,465,793, respectively, representing 41% of net sales for both such years. The decrease in foreign sales during the three months ended March 31, 2006 as compared to the three months ended March 31, 2005 is substantially due to decreased Labcaire sales. In March 2005, the Company signed an exclusive distribution agreement with Focus Surgery for the sale of the Sonablate 500 for the treatment of prostate cancer and other prostatic tumors in the geographic areas of Western Europe, Eastern Europe and Russia. The agreement is for a term of two years with automatic renewals for successive one-year terms as long as the specified minimum quantities are purchased. Labcaire represented 71% and 77% of foreign net sales during the three months ended March 31, 2006 and 2005, respectively. The remaining 29% and 23% represents net foreign sales remitted in U.S. Dollars during the three months ended March 31, 2006 and 2005, respectively. Approximately 29% of the Company's revenues for the three months ended March 31, 2006 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 weighted average rates of 1.75 and 1.89 for the three months ended March 31, 2006 and 2005, respectively. A strengthening of the English Pound, in relation to the U.S. Dollar, will have the effect of increasing reported revenues and profits, while a weakening of the English Pound will have the opposite effect. Since the Company's operations in England generally set 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.

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

The Company's revenues are generated from various geographic regions. The following is an analysis of net sales by geographic region:

For the three months ended March 31:

	<b>2006</b>	2005
United States	\$ 5,978,889	\$ 6,413,814
United Kingdom	2,612,004	2,966,475
Europe	608,701	800,277
Asia	433,279	109,352
Canada	280,221	252,266
Middle East	138,085	181,538
Other	118,599	155,885
	<b>\$ 10,169,778</b>	<b>\$ 10,879,607</b>

Summarized financial information for each of the segments for the three months ended March 31, 2006 and 2005 are as follows:

For the three months ended March 31, 2006:

	<b>Medical Device Products</b>	<b>Laboratory and Scientific Products</b>	<b>Corporate and Unallocated</b>	<b>Total</b>
Net sales	\$ 5,082,180	\$ 5,087,598	\$ 3/4	\$ 10,169,778
Cost of goods sold	2,856,373	3,360,403	3/4	6,216,776
Gross profit	2,225,807	1,727,195	3/4	3,953,002
Selling expenses	1,237,229	528,410	3/4	1,765,639
Research and development expenses	587,535	387,772	3/4	975,307
General and administrative	3/4	3/4	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)

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

For the three months ended March 31, 2005:

	<b>Medical</b>	<b>Laboratory and</b>	<b>Corporate and</b>	
	<b>Device Products</b>	<b>Scientific Products</b>	<b>Unallocated</b>	<b>Total</b>
Net sales	\$ 5,666,421	\$ 5,213,186	\$ 3/4	\$ 10,879,607
Cost of goods sold	3,083,901	3,246,556	3/4	6,330,457
Gross profit	2,582,520	1,966,630	3/4	4,549,150
Selling expenses	770,968	705,268	3/4	1,476,236
Research and development expenses	640,498	277,614	3/4	918,112
General and administrative	3/4	3/4	2,284,786	2,284,786
Total operating expenses	1,411,466	982,882	2,284,786	4,679,134
			(\$	
Income (loss) from operations	\$ 1,171,054	\$ 983,748	2,284,786)	(\$ 129,984)

**Gross profit:** Gross profit decreased from 41.8% for the three months ended March 31, 2005 to 38.9% for the three months ended March 31, 2006. Gross profit for medical device products decreased to 43.8% of sales in the three months ended March 31, 2006 from 45.6% of sales in the three months ended March 31, 2005. The gross profits decrease for medical device products was substantially due to price reductions agreed to with USS in a new 3-year manufacturing agreement. Gross profit for laboratory and scientific products decreased to 33.9% for the three months ended March 31, 2006 from 37.7% for the three months ended March 31, 2005. The decrease in gross profit for laboratory and scientific products was primarily due to increased costs at the Company's wet scrubber operations, which is a result of cost overruns on several products. The Company manufactures and sells both medical device products and laboratory and scientific products with a wide range of product costs and gross margin dollars as a percentage of revenues.

**Selling expenses:** Selling expenses increased \$289,403 to \$1,765,639 for the three months ended March 31, 2006 from \$1,476,236 for the three months ended March 31, 2005. Medical device products selling expenses increased \$466,261, principally due to additional sales and marketing efforts for diagnostic medical device products and additional sales and marketing efforts for European distribution of the Sonablate 500 product used to treat prostate cancer and other prostatic afflictions. Laboratory and scientific products selling expenses decreased \$176,858, predominantly due to a decrease in marketing expenses for Labcaire's Guardian endoscopic cleaning product and decreased selling expenses for wet scrubbers.

**General and administrative expenses:** General and administrative expenses increased \$217,840 to \$2,502,626 in the three months ended March 31, 2006 from \$2,284,786 in the three months ended March 31, 2005. The increase is predominantly due to implementation of SFAS 123R, which increased general and administrative expenses by \$66,000 and an increase in general and administrative expenses of approximately \$140,000 relating to salaries, rent and utility expenses at Sonora Medical Systems, Inc.

**Research and development expenses:** Research and development expenses increased \$57,195 to \$975,307 for the three months ended March 31, 2006 from \$918,112 for the three months ended March 31, 2005. Medical device products research and development expenses decreased \$52,963. Research and development expenses for laboratory and scientific products increased \$110,158, primarily due to new product designs at Labcaire.



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

**Other income (expense):** Other income for the three months ended March 31, 2006 was \$144,143 as compared to \$195,111 for the three months ended March 31, 2005. The decrease of \$50,968 was primarily due to a decrease in royalty income of \$49,693 and an increase in royalty expense of \$14,320, which was partially offset by other income (expense) of \$12,049.

**Income taxes:** The effective tax rate is 27.3% for the three months ended March 31, 2006 as compared to an effective tax rate of 91% for the three months ended March 31, 2005. The prior period's consolidated effective tax rate was impacted by the large percentage of minority interest to total pre-tax income.

**Critical Accounting Policies:**

**General:** Financial Reporting Release No. 60, which was released by the Securities and Exchange Commission in December 2001, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of the financial statements. Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2005 includes a summary of the Company's significant accounting policies and methods used in the preparation of its financial statements. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts, inventories, goodwill, property, plant and equipment and income taxes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the 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. Actual results may differ from these estimates under different assumptions or conditions. The Company considers certain accounting policies related to allowance for doubtful accounts, inventories, property, plant and equipment, goodwill and income taxes to be critical policies due to the estimation process involved in each.

**Revenue Recognition:** The Company records revenue upon shipment for products shipped F.O.B. shipping point. Products shipped F.O.B. destination point are recorded as revenue when received at the point of destination. Shipments under agreements with distributors are not subject to return, and payment for these shipments is not contingent on sales by the distributor. The Company recognizes revenue on shipments to distributors in the same manner as with other customers. Fees from exclusive license agreements are recognized ratably over the terms of the respective agreements. Service contracts and royalty income is recognized when earned.

**Allowance for Doubtful Accounts:** The Company's policy is to review its customers' financial condition prior to extending credit and, generally, collateral is not required. The Company utilizes letters of credit on foreign or export sales where appropriate.

**Inventories:** Inventories are stated at the lower of cost (first-in, first-out) or market and consist of raw materials, work-in-process and finished goods. Management evaluates the need to record adjustments for impairments of inventory on a quarterly basis. The Company's policy is to assess the valuation of all inventories, including raw materials, work-in-process and finished goods.



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

**Property, Plant and Equipment:** Property, plant and equipment are recorded at cost. Depreciation of property and equipment is provided using the straight-line method over estimated useful lives ranging from 1 to 5 years. Depreciation of the Labcaire building is provided using the straight-line method over the estimated useful life of 50 years. Leasehold improvements are amortized over the life of the lease or the useful life of the related asset, whichever is shorter. The Company's policy is to periodically evaluate the appropriateness of the lives assigned to property, plant and equipment and to make adjustments if necessary. Certain inventory products which are used for clinical trials, demo equipment, fee-for-service, or consignment are classified in property, plant and equipment and are depreciated over estimated useful lives of 2 to 4 years.

**Goodwill:** In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 ("SFAS 141") and SFAS 142 ("SFAS 142"), "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS 141 replaced Accounting Principles Board ("APB") Opinion 16 "Business Combinations" and requires the use of the purchase method for all business combinations initiated after June 30, 2001. SFAS 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized, but instead be tested for impairment at least annually and whenever events or circumstances occur that indicate goodwill might be impaired. With the adoption of SFAS 142, as of July 1, 2001, the Company reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, only goodwill was determined to have an indefinite useful life and no adjustments were made to the amortization period or residual values of other intangible assets. The Company also completed its annual goodwill impairment tests for fiscal 2005 in the fourth quarter with no impairment noted.

**Income Taxes:** Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Stock-Based Compensation:** The Company accounts for its stock-based compensation plans in accordance with SFAS 123R.

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

**Recent Accounting Standards**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). This statement supersedes SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123", and APB No. 25, "Accounting for Stock Issued to Employees." The statement was effective for interim or annual periods beginning after June 15, 2005. Accordingly, effective July 1, 2005, the Company adopted the fair-value recognition provisions of SFAS No. 123R. Reference is hereby made to Note 4 of the Notes to Consolidated Financial Statements contained in Part I - Item 1 of this Report, Stock-Based Compensation, for further information regarding the implementation of SFAS No. 123R.

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements" ("SFAS 154"). SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income for the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements. The Company does not believe that the adoption of SFAS No. 154 will have a material impact on its financial condition or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment of APB No. 43, Chapter 4 ("SFAS 151"). The amendments made by SFAS No. 151 will improve financial reporting by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. SFAS No. 151 was effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company adopted SFAS No. 151 effective July 1, 2005, the adoption of which did not have a material impact on the Company's financial condition or results of operations.

**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 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.

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**Liquidity and Capital Resources**

Working capital at March 31, 2006 and June 30, 2005 was approximately \$13,920,000 and \$15,905,000, respectively. In the nine months ended March 31, 2006, cash used in operating activities totaled \$776,161, which was principally due to the net loss for the period, inventory increase, and decrease in accounts payable, partially offset by the collection of accounts receivable. In the nine months ended March 31, 2006, cash used in investing activities was approximately \$737,690, which primarily consisted of the purchase of property, plant and equipment in the regular course of business. In the nine months ended March 31, 2006, cash used in financing activities was approximately \$363,396, primarily consisting of payments on short-term borrowings, capital lease obligations and long-term debt, partially offset by proceeds from short-term borrowings and receipts from the exercise of employee stock options.

**Revolving Credit Facilities**

Labcaire has a debt purchase agreement with Lloyds TSB Commercial Finance. The amount of this facility is approximately \$1,670,000 (£950,000) and bears interest at the bank's base rate of 5.25% plus 1.75% and a service charge of .15% of sales invoice value and fluctuates based upon the outstanding United Kingdom and European receivables. This agreement expires on June 30, 2006 and covers all United Kingdom and European sales. At March 31, 2006, approximately \$1,100,000 (£635,000) was outstanding under this agreement. Amounts available under the debt purchase agreement are determined as a percentage of eligible receivables and at March 31, 2006 no additional funds were available.

The Company has a revolving credit facility with the Bank of America (the "Bank") to support future working capital needs. The revolving credit facility has interest rate options ranging from Libor plus 1.0% per annum to prime rate plus .25% per annum and expires on January 18, 2008. This facility is secured by the assets of the Company. The terms provide for the repayment of the debt in full on its maturity date. Certain financial covenants of the facility were amended effective February 14, 2006. The Company was not in compliance with these amended loan covenants at March 31, 2006. The Bank reduced the maximum amount available under the line of credit to \$2,500,000 from \$6,000,000 and issued a waiver for such non-compliance.

**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**

The Company believes that its existing capital resources will enable it to maintain its current and planned operations for at least 18 months from the date hereof.

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

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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.

*Foreign Exchange Rates:*

Approximately 26% of the Company's revenues in the nine months ended March 31, 2006 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 1.76 and 1.86 for the nine months ended March 31, 2006 and 2005, 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 of the English Pound 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.

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, 2006 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 third quarter of fiscal 2006 that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

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**MISONIX, INC.**

**PART II - OTHER INFORMATION**

Item 6. Exhibits

<a href="#"><u>Exhibit 31.1</u></a>	- Rule 13a-14(a)/15d-14(a) Certification
<a href="#"><u>Exhibit 31.2</u></a>	- Rule 13a-14(a)/15d-14(a) Certification
<a href="#"><u>Exhibit 32.1</u></a>	- Section 1350 Certification of Chief Executive Officer
<a href="#"><u>Exhibit 32.2</u></a>	- Section 1350 Certification of Chief Financial Officer

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**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 15, 2006  
MISONIX, INC.  
(Registrant)

By: /s/ Michael A. McManus, Jr.

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Michael A. McManus, Jr.  
President and Chief Executive Officer

By: /s/ Richard Zaremba

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Richard Zaremba  
Senior Vice President, Chief Financial Officer,  
Treasurer and Secretary

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