

MISONIX INC
Form 10-Q
November 16, 2009

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2009

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 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
(Do not check if a smaller reporting company)

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 practical date:

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Class of Common Stock	Outstanding at November 11, 2009
Common Stock, \$.01 par value	7,001,369

MISONIX, INC.
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Consolidated Balance Sheets**

	September 30, 2009	June 30, 2009 (Derived from audited financial statements)
	(Unaudited)	
Assets		
Current assets:		
Cash	\$ 5,680,200	\$ 3,415,813
Accounts receivable, less allowance for doubtful accounts of \$378,543 and \$334,399, respectively	2,291,613	3,301,551
Inventories, net	3,799,061	3,678,743
Deferred income taxes	1,014,262	762,429
Prepaid expenses and other current assets	740,012	715,589
Current assets of discontinued operations Labcaire		5,460,052
Current assets held for sale Sonora	3,526,543	3,659,383
Total current assets	17,051,691	20,993,560
Property, plant and equipment, net	546,489	588,191
Deferred income taxes	221,344	128,183
Goodwill	2,020,838	2,016,941
Other assets	1,558,571	757,551
Assets of discontinued operations Labcaire		6,937,810
Assets held for sale Sonora	3,717,198	3,741,170
Total assets	\$ 25,116,131	\$ 35,163,406
Liabilities and stockholders equity		
Current liabilities:		
Revolving credit facilities	\$ 1,609,122	\$ 2,633,059
Notes payable	132,031	261,485
Accounts payable	936,682	690,004
Accrued expenses and other current liabilities	655,254	807,691
Foreign income taxes payable	37,459	10,363
Current maturities of capital lease obligations	13,769	13,523
Current liabilities of discontinued operations Labcaire		8,097,279
Current liabilities related to assets held for sale Sonora	674,751	712,256
Total current liabilities	4,059,068	13,225,660
Capital lease obligations	24,161	27,716

Deferred lease liability	28,956	38,607
Deferred income taxes	405,776	405,776
Deferred income	195,129	201,207
Liabilities related to assets held for sale - Sonora	253,930	280,652
Total liabilities	4,967,020	14,179,618
Commitments and contingencies		
Stockholders' equity:		
Misonix, Inc. Stockholders' equity:		
Common stock, \$.01 par value - shares authorized 20,000,000; 7,079,169 issued and 7,001,369 outstanding	70,792	70,792
Additional paid-in capital	25,284,215	25,251,412
Accumulated deficit	(4,600,393)	(3,824,003)
Accumulated other comprehensive loss	(467,658)	(348,936)
Treasury stock, 77,800 shares	(412,424)	(412,424)
Total Misonix, Inc. stockholders' equity	19,874,532	20,736,841
Noncontrolling interests	274,579	246,947
Total stockholders' equity	20,149,111	20,983,788
Total liabilities and stockholders' equity	\$ 25,116,131	\$ 35,163,406

See Accompanying Notes to Consolidated Financial Statements.

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

	For the three months ended	
	September 30 ,	
	2009	2008
Net sales	\$ 2,746,684	\$ 3,143,199
Cost of goods sold	1,624,543	1,913,674
Gross profit	1,122,141	1,229,525
Operating expenses:		
Selling expenses	949,413	798,326
General and administrative expenses	1,345,256	1,503,601
Research and development expenses	422,469	320,632
Total operating expenses	2,717,138	2,622,559
Operating loss from continuing operations	(1,594,997)	(1,393,034)
Other income (expense):		
Interest income	14,028	31,051
Interest expense	(28,088)	(46,262)
Royalty income and license fees	156,623	176,227
Royalty expense		(3,584)
Recovery of Focus Surgery, Inc. investment		1,516,866
Other	10,164	(24,242)
Total other income	152,727	1,650,056
(Loss) income from continuing operations before income taxes	(1,442,270)	257,022
Income tax (benefit) provision	(245,764)	149,436
Net (loss) income from continuing operations	(1,196,506)	107,586
Discontinued operations:		
Net income from discontinued operations, net of tax of \$0 and \$85,901		
Ultrasonics		118,624
Net income from discontinued operations, net of tax of \$32,429 and \$33,329		
Sonora	128,987	46,026
Net income from discontinued operations, net of tax of \$437,968 and \$25,850		
Labcaire	514,477	60,316
Net loss on the sale of Labcaire, net of tax of \$100,163	(195,716)	

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Total net income from discontinued operations	447,748	224,966
Net (loss) income	(748,758)	332,552
Net income attributable to noncontrolling interests	27,632	12,550
Net (loss) income attributable to Misonix, Inc. shareholders	\$ (776,390)	\$ 320,002
Net (loss) income per share from continuing operations Basic	\$ (.17)	\$ 0.02
Net income per share from discontinued operations Basic	.06	0.03
Net (loss) income per share Basic	\$ (.11)	\$ 0.05
Net (loss) income per share from continuing operations Diluted	\$ (.17)	\$ 0.02
Net income per share from discontinued operations Diluted	.06	0.03
Net (loss) income per share Diluted	\$ (.11)	\$ 0.05
Weighted average common shares outstanding Basic	7,001,369	7,001,369
Weighted average common shares outstanding Diluted	7,001,369	7,031,953

See Accompanying Notes to Consolidated Financial Statements.

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MISONIX, INC. and Subsidiaries
Consolidated Statement of Stockholders Equity
(Unaudited)
Three months ended September 30, 2009

	Common Stock \$.01 Par value		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interests	Total stockholders equity
	Number of shares	Amount	Number of shares	Amount					
Balance, June 30, 2009	7,079,169	\$ 70,792	(77,800)	\$ (412,424)	\$ 25,251,412	\$ (3,824,003)	\$ (348,936)	\$ 246,947	\$ 20,983,788
Net (loss) income						(776,390)		27,632	(748,758)
Foreign currency translation adjustment							(118,722)		(118,722)
Comprehensive loss									(867,480)
Stock-based compensation					32,803				32,803
Balance, September 30, 2009	7,079,169	\$ 70,792	(77,800)	\$ (412,424)	\$ 25,284,215	\$ (4,600,393)	\$ (467,658)	\$ 274,579	\$ 20,149,111

See Accompanying Notes to Consolidated Financial Statements.

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

	For the three months ended	
	September 30,	
	2009	2008
Operating activities		
Net (loss) income from continuing operations	\$ (1,196,506)	\$ 107,586
Adjustments to reconcile net (loss) income from continuing operations to net cash used in continuing operating activities:		
Depreciation and amortization and other non-cash items	87,502	116,927
Bad debt expense	14,045	15,000
Deferred income tax (benefit) expense	(243,533)	263,631
Loss on disposal of property, plant and equipment	90,439	
Stock-based compensation	32,803	53,025
Deferred income	(9,651)	14,172
Deferred leasehold costs	(6,078)	(4,638)
Recovery of Focus Surgery, Inc. investment		(1,516,866)
Changes in operating assets and liabilities:		
Accounts receivable	953,283	505,882
Inventories	(123,310)	(194,397)
Income taxes	(104,296)	(15,285)
Prepaid expenses and other current assets	(24,424)	2,109
Accounts payable and other accrued liabilities	94,241	(454,875)
Foreign income taxes payable	(3,155)	
Other assets	(697,758)	(57,141)
Change in assets held for sale		(143,848)
Net cash used in operating activities	(1,136,398)	(1,308,718)
Investing activities		
Acquisition of property, plant and equipment	(118,734)	(76,942)
Recovery of Focus Surgery, Inc. investment		1,516,866
Investment in UKHIFU Limited	(3,897)	
Net cash (used in) provided by investing activities	(122,631)	1,439,924
Financing activities		
Proceeds from short-term borrowings	6,528,923	6,896,194
Payments of short-term borrowings	(7,682,314)	(7,594,075)
Principal payments on capital lease obligations	(3,309)	(4,094)
Net cash used in financing activities	(1,156,700)	(701,975)
Cash flows from discontinued operations		

Net cash used in operating activities	1,082,459	229,143
Net cash provided by investing activities	3,600,000	
Net cash provided by (used in) discontinued operations	4,682,459	229,143
Effect of exchange rate changes on cash	(2,343)	5,189
Net increase (decrease) in cash	2,264,387	(336,437)
Cash at beginning of period	3,415,813	1,532,983
Cash at end of period	5,680,200	\$ 1,196,546
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 71,159	\$ 92,828
Income taxes	\$ 25	\$ 52,274

See Accompanying Notes to Consolidated Financial Statements.

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MISONIX, INC. and Subsidiaries
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 adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010, or any interim period.

The balance sheet at June 30, 2009 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, 2009.

Subsequent Events

We evaluated events or transactions which occurred subsequent to the balance sheet date but prior to November 16, 2009, the issuance date of the financial statements, for recognition or disclosure.

Reclassification

Certain prior period amounts in the accompanying financial statements and related notes have been reclassified to conform to the current period's presentation.

Discontinued Operations

On August 5, 2009, the Company sold its Labcaire Systems, Ltd. (Labcaire) subsidiary to PuriCore International Limited for a total purchase price of up to \$5.6 million. The Company received \$3.6 million at closing and a promissory note in the principal amount of \$1 million, payable in equal installments of \$250,000 on the next four anniversaries of the closing. The note receivable was discounted over the four years using a 4% imputed interest rate. This rate is consistent with published discounts. The discounted value of the note (\$900,000) is used to determine gain or loss on the sale. The Company will also receive a commission paid on sales for the period commencing on the date of closing and ending on December 31, 2013 of 8% of the pass through Automated Endoscope Reprocessing (AER) and Drying Cabinet products, and 5% of license fees from any chemical licenses marketed by Labcaire directly associated with sale of AERs, specifically for the disinfection of the endoscope. The aggregate commission payable to the Company is subject to a maximum payment of \$1,000,000. The aggregate commission will have a zero value in determining the current gain or loss on the sale of Labcaire until the commission is paid. As of September 30, 2009, there were no commissions paid. For the three months ended September 30, 2009, the Company recorded an after tax loss on the sale of Labcaire of \$195,716. Results of Labcaire for all periods presented are classified as discontinued operations.

On October 2, 2009, the Company sold the assets of its subsidiary, Acoustic Marketing Research, Inc. d/b/a Sonora Medical Systems (Sonora) to Medical Imaging Holdings (MIH), Inc. for \$8 million in cash. As of September 30, 2009 and June 30, 2009, all assets and liabilities are classified as held for sale and results of operations for all periods presented are classified as discontinued operations. On October 2, 2009, but prior to the sale of assets of Sonora, the Company purchased the remaining 5% of the outstanding shares of Sonora stock for a purchase price of \$1,177,000. Subsequent to the purchase, the Company owned 100% of the outstanding shares of Sonora.

On April 7, 2009, the Company sold the assets of its Ultrasonic Laboratory Products business to iSonic LLC, a wholly owned subsidiary of Sonics and Materials, Inc., for a cash payment of \$3.5 million. The results of operations from the Ultrasonic Laboratory Products business are shown net of tax from discontinued operations. The prior year financial results have been presented to reflect the Ultrasonic Laboratory Products business as a discontinued operation.

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MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

The following amounts related to the Sonora and Labcaire businesses have been segregated from the Company's continuing operations and are reported as held for sale in the consolidated balance sheets and classified as discontinued operations in the consolidated statements of operations:

Sonora

	September 30, 2009	June 30, 2009
Cash	\$ 254,292	\$ 175,369
Accounts receivable	1,502,118	1,734,761
Inventory	1,646,453	1,502,076
Other current assets	123,680	247,177
Property, plant and equipment net	792,228	816,200
Goodwill	2,924,970	2,924,970
Total assets held for sale	\$ 7,243,741	\$ 7,400,553
Accounts payable	\$ 531,603	\$ 355,962
Accrued expenses and other current liabilities	143,148	356,294
Deferred lease	214,752	235,894
Other liabilities	39,178	44,758
Total liabilities related to assets held for sale	\$ 928,681	\$ 992,908

Labcaire

	September 30, 2009	June 30, 2009
Cash		\$ 99,840
Accounts receivable		3,622,248
Inventory		1,446,497
Other current assets		291,467
Property, plant and equipment net		4,142,303
Deferred taxes		1,160,363
Other assets		116,466
Goodwill		1,518,678
Total assets of discontinued operations		\$ 12,397,862
Revolving credit facility		\$ 1,820,891
Accounts payable		1,932,543
Accrued expenses and other current liabilities		2,336,389
Tax payable		785,466
Gain from sale of building		1,054,543
Capital leases		167,447

