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MISONIX INC
Form 10-Q/A
February 12, 2003

FORM 10-Q/A
Amendment No. 1

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
	----- (UNAUDITED) -----
ASSETS	
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
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 =====
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
Retained deficit	(1,856,861)
Treasury stock, 74,300 shares	(401,974)
Accumulated other comprehensive loss	(48,547)

Total stockholders' equity	20,461,515 -----
Total liabilities and stockholders' equity	\$ 28,860,860 =====

See accompanying Notes to Consolidated Financial Statements.

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 investments	(196,632)	(541,342)
	-----	-----
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
	=====	=====
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

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See accompanying Notes to Consolidated Financial Statements.

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MISONIX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
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	FOR THE THREE MONTHS ENDED 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 investments	(84,000)	(119,259)
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
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

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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	

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

INVESTING ACTIVITIES		
Acquisition of property, plant and equipment		(267,025)
Purchase of Labcaire stock		(232,394)
Redemption of investments held to maturity		-
Purchase of convertible debentures - Focus Surgery, Inc.		-
Loans to Focus Surgery, Inc.		-
Loans to Hearing Innovations, Inc.		(159,666)
Net cash (used in) provided by investing activities		(659,085)

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FINANCING ACTIVITIES		
Proceeds from (payments of) short-term borrowings, net		360,815
Principal payments on capital lease obligations		(134,008)
Proceeds from (payments of) of long-term debt		655
Proceeds from exercise of stock options		393,104
Purchase of treasury stock		-

Net cash provided by financing activities		620,566

Effect of exchange rate changes on assets and liabilities		(4,299)

Net increase in cash and cash equivalents		265,468
Cash and cash equivalents at beginning of year		1,065,465

Cash and cash equivalents at end of year		\$ 1,330,933 \$
		=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for (received from):		
Interest		\$ 87,480 \$
		=====
Income taxes		\$ (531,213) \$
		=====
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 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

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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)

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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
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

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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)

=====

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 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:

	(a)			
	MEDICAL DEVICES	INDUSTRIAL PRODUCTS	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

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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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MISONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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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
	=====	=====	=====	=====

(a) Amount represents general and administrative expenses.

For the three months ended December 31, 2001:

	MEDICAL DEVICES	INDUSTRIAL PRODUCTS	(a) CORPORATE AND UNALLOCATED	TOTAL
	-----	-----	-----	-----
Net sales	\$3,061,963	\$ 4,441,574	\$ -	\$7,503,537
Cost of goods sold	1,745,664	2,432,538	-	4,178,202
	-----	-----		-----
Gross profit	1,316,299	2,009,036	-	3,325,335
Selling expenses	210,126	817,417	-	1,027,543
Research and development expenses	357,016	147,926	-	504,942
	-----	-----		-----
Total operating expenses	567,142	965,343	1,518,178	3,050,663
	-----	-----	-----	-----
Income from operations	\$ 749,157	\$ 1,043,693	\$ (1,518,178)	\$ 274,672
	=====	=====	=====	=====

(a) Amount represents general and administrative expenses.

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

For the six months ended December 31:

	2002	2001
	-----	-----
	(IN THOUSANDS)	
United States	\$10,066,000	\$10,530,000
Canada and Mexico	169,000	116,000
United Kingdom	3,645,000	2,611,000
Europe	677,000	420,000
Asia	495,000	484,000
Middle East	43,000	109,000
Other	90,000	56,000
	-----	-----
	\$15,185,000	\$14,326,000
	=====	=====

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MISONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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7. Revolving Credit Facilities

On July 1, 2002, Labcaire replaced its bank overdraft facility with HSBC Bank plc with a debt purchase agreement with Lloyds TSB Commercial Finance. The amount of this facility is approximately \$1,384,000 (950,000) and bears interest at the bank's base rate plus 1.75% and a service charge of .15% of sales invoice value. The agreement expires on June 28, 2003 and covers all United Kingdom and European sales.

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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.

Six Months Ended December 31, 2002 and 2001.

NET SALES: Net sales of the Company's medical devices and industrial products

increased \$858,777 to \$15,184,835 for the six months ended December 31, 2002 from \$14,326,058 for the six months ended December 31, 2001. This difference in net sales is due to an increase in sales of medical devices of \$1,407,479 offset by lower industrial products sales of \$548,702. The increase in sales of medical devices is due to an increase in sales of diagnostic medical devices of \$945,715 and an increase of \$461,764 in sales of therapeutic medical devices, both due to increased customer demand. The decrease in industrial products is due to decreased wet scrubber sales of \$999,413, a decrease in ultrasonic sales of \$93,963 and a decrease in ductless fume enclosure sales of \$387,411 primarily offset by an increase in Labcaire sales of \$932,085. Wet scrubber sales continue to be adversely affected by the downturn of the semi-conductor market. The decrease in fume enclosure and ultrasonic sales is due to customer demand and current economic conditions for such products. The increase in Labcaire sales is primarily due to the product demand of the new Guardian product introduced in December 2001, which is currently compliant with the new United Kingdom standards for such products.

GROSS PROFIT: Gross profit decreased to 41.9% for the six months ended December

31, 2002 from 45.4% for the six months ended December 31, 2001. The decrease in gross profit is predominantly due to the unfavorable mix of high and low margin product deliveries for industrial products, primarily ductless fume enclosures and ultrasonic products and the reduced revenue volume for industrial products.

SELLING EXPENSES: Selling expenses decreased \$24,925 to \$2,032,563 for the six

months ended December 31, 2002 from \$2,057,488 for the six months ended December 31, 2001. Medical device selling expenses increased \$181,635 predominantly due to additional sales and marketing efforts for diagnostic medical devices. Industrial selling expenses decreased \$206,560 predominantly due to a decrease

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in fume enclosure, ultrasonic and wet scrubber commissions and wet scrubber marketing expenses.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses

increased \$146,421 from \$3,005,710 in the six months ended December 31, 2001 to \$3,152,131 in the six months ended December 31, 2002. The increase is predominantly due to an increase in general and administrative expenses relating to severance costs for Labcaire personnel partially offset by lower travel and stockholder relations expenses of approximately \$36,000 and \$10,000, respectively.

RESEARCH AND DEVELOPMENT EXPENSES: Research and development expenses increased

\$51,691 from \$964,197 for the six months ended December 31, 2001 to \$1,015,888 for the six months ended December 31, 2002. During the first and second quarter of fiscal 2003, the Company funded \$100,000 to Focus Surgery, Inc. ("Focus Surgery") to start research and development for the treatment of kidney tumors utilizing high intensity focused ultrasound technology. During the second quarter of fiscal 2003, the Company was reimbursed from two customers certain product development expenditures incurred, in the amount of approximately \$164,000.

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

LITIGATION (RECOVERY) SETTLEMENT EXPENSES: The Company recorded a reversal of

the litigation settlement during the first and second quarters of fiscal 2003 of \$152,628, which represents the sale of Lysonix 2000 units by Mentor Corporation under our manufacturing and distribution agreement, that was previously reserved for. Accordingly, the Company recorded a reversal of the litigation settlement of \$152,628. 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.

OTHER INCOME (EXPENSE): Other income during the six months ended December 31,

2002 was \$20,332. During the six months ended December 31, 2001, other income was \$84,755. The decrease of \$64,423 was principally due to a decrease in loss on impairment of investments of \$344,710, offset by lower interest income of \$203,525 and reduced royalty income of \$192,492.

INCOME TAXES: The effective tax rate is 55.5% for the six months ended December

31, 2002 as compared to an effective tax rate of 63.7% for the six months ended December 31, 2001. The current effective tax rate is a mixture of the Labcaire tax expense offset by domestic entities benefits, which is offset in part by a valuation allowance. The Company recorded a valuation allowance in the amount of \$75,516 and \$211,380 for the six months ended December 31, 2002 and 2001, respectively, against the deferred tax asset relating to the loss on the loans and debentures issued by Hearing Innovations because the Company does not anticipate capital gains to offset the capital losses. The valuation allowance was recorded in accordance with the provisions of FASB Statement No. 109 "Accounting for Income Taxes".

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Three Months Ended December 31, 2002 and 2001.

NET SALES: Net sales of the Company's medical devices and industrial products

increased \$670,976 to \$8,174,513 for the three months ended December 31, 2002 from \$7,503,537 for the three months ended December 31, 2001. This difference in net sales is due to an increase in sales of medical devices of \$980,945 offset by lower industrial products sales of \$309,969. The increase in sales of medical devices is due to an increase in sales of diagnostic medical devices of \$561,537 and an increase of \$419,408 in sales of therapeutic medical devices, both due to increased customer demand. The decrease in industrial products is due to decreased wet scrubber sales of \$253,379, a decrease in ductless fume enclosure sales of \$471,567 and a decrease in ultrasonic sales of \$194,037 primarily offset by an increase in Labcaire sales of \$609,014. Wet scrubber sales continue to be adversely affected by the downturn of the semi-conductor market. The decrease in fume enclosure and ultrasonic sales is due to customer demand and current economic conditions for such products. The increase in Labcaire sales is primarily due to the product demand of the new Guardian product introduced in December 2001, which is currently compliant with the new United Kingdom standards for such products.

GROSS PROFIT: Gross profit decreased to 41.7% for the three months ended

December 31, 2002 from 44.3% for the three months ended December 31, 2001. The decrease in gross profit is predominantly due to the unfavorable mix of high and low margin product deliveries for industrial products, primarily ultrasonic products and the reduced revenue volume for industrial products. The decrease is offset by an increase in gross profit of diagnostic medical devices.

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

SELLING EXPENSES: Selling expenses increased \$69,417 to \$1,096,960 for the three

months ended December 31, 2002 from \$1,027,543 for the three months ended December 31, 2001. Medical device selling expenses increased \$165,929 predominantly due to additional sales and marketing efforts for diagnostic medical devices. Industrial selling expenses decreased \$96,512 predominantly due to a decrease in fume enclosure, ultrasonic and wet scrubber commissions and wet scrubber marketing expenses offset by an increase in marketing efforts by Labcaire.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses

increased \$114,080 from \$1,518,178 in the three months ended December 31, 2001 to \$1,632,258 in the three months ended December 31, 2002. The increase is predominantly due to an increase in general and administrative expenses relating to severance costs for a Labcaire executive partially offset by lower stockholder relations expenses of approximately \$15,000.

RESEARCH AND DEVELOPMENT EXPENSES: Research and development expenses decreased

\$28,380 from \$504,942 for the three months ended December 31, 2001 to \$476,562 for the three months ended December 31, 2002. During second quarter of fiscal 2003, the Company funded \$50,000 to Focus Surgery to start research and development for the treatment of kidney tumors utilizing high intensity focused

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ultrasound technology. During the second quarter of fiscal 2003, the Company was reimbursed from two customers certain product development expenditures incurred, in the amount of approximately \$164,000.

LITIGATION (RECOVERY) SETTLEMENT EXPENSES: The Company recorded a reversal of

the litigation settlement during the second quarter of fiscal 2003 of \$25,326, which represents the sale of Lysonix 2000 units by Mentor Corporation under our manufacturing and distribution agreement, that was previously reserved for. Accordingly, the Company recorded a reversal of the litigation settlement of \$25,326. 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.

OTHER INCOME (EXPENSE): Other income during the three months ended December 31,

2002 was \$5,221. During the three months ended December 31, 2001, other income was \$101,855. The decrease of \$96,634 was principally due to a decrease in loss on impairment of investments of \$35,259, offset by lower interest income of \$95,688 and reduced royalty income of \$21,782.

INCOME TAXES: The effective tax rate is 58.2% for the three months ended

December 31, 2002 as compared to an effective tax rate of 37.9% for the three months ended December 31, 2001. The current effective tax rate is a mixture of the Labcaire tax expense offset by domestic entities benefits, which is offset in part by a valuation allowance. The Company recorded a valuation allowance in the amount of \$31,590 and \$46,410 for the three months ended December 31, 2002 and 2001, respectively, against the deferred tax asset relating to the loss on the loans and debentures issued by Hearing Innovations because the Company does not anticipate capital gains to offset the capital losses. The valuation allowance was recorded in accordance with the provisions of FASB Statement No. 109 "Accounting for Income Taxes".

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

CRITICAL ACCOUNTING POLICIES:

General: Financial Reporting Release No. 60, which was released by the

Securities and Exchange Commission ("SEC") 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, 2002 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

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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.

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.

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.

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

Goodwill: In July 2001, the Financial Accounting Standards Board issued

Statement of Financial Accounting Standards ("SFAS") Nos. 141 ("SFAS 141") and 142 ("SFAS 142"), "Business Combinations" and "Goodwill and Other Intangible Assets," respectively. SFAS 141 replaces 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. SFAS 142 provides a six-month transitional period from the effective date of adoption for the Company to perform an assessment of whether there is an indication that goodwill is impaired. To the extent that an indication of impairment exists, the Company must perform a second test to measure the amount of impairment. The second test must be performed as soon as possible, but no

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later than the end of the fiscal year. Any impairment measured as of the date of adoption will be recognized as the cumulative effect of a change in accounting principle. The Company performed the first test and determined that there is no indication that the goodwill recorded is impaired and, therefore, the second test was not required. The Company also completed its annual goodwill impairment tests for fiscal 2002 in the fourth quarter. There were no indications that goodwill recorded was impaired.

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 carryforwards. 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.

LIQUIDITY AND CAPITAL RESOURCES:

Working capital at December 31, 2002 and June 30, 2002 was \$13,545,504 and \$11,854,281, respectively. In the six months ended December 31, 2002, cash provided by operations totaled \$308,286. This was primarily due to the cash paid for inventory purchased for unshipped orders offset by the receipt of a portion of prepaid income taxes. In the six months ended December 31, 2002, cash used in investing activities was \$659,085, which primarily consisted of the purchase of Labcaire stock, the purchase of property, plant and equipment during the regular course of business and of loans made to Hearing Innovations. In the six months ended December 31, 2002, cash provided by financing activities was \$620,566 which primarily consisted of proceeds from the exercise of stock options and short-term borrowings offset by principal payments on capital lease obligations.

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

Hearing Innovations, Inc.

During fiscal 2003, the Company entered into seven loan agreements whereby 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 159,766 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 and accrued interest 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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Revolving Credit Facilities

On July 1, 2002, Labcaire replaced its bank overdraft facility with HSBC Bank plc with a debt purchase agreement with Lloyds TSB Commercial Finance. The amount of this facility is approximately \$1,384,000 (950,000) and bears interest at the bank's base rate plus 1.75% and a service charge of .15% of sales invoice value. The agreement expires on June 28, 2003 and covers all United Kingdom and European sales.

Labcaire

In October 2002, under the terms of the Labcaire Agreement (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.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which supersedes both FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121") and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("Opinion 30"), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. For example, SFAS 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS 121, SFAS 144 does not address the impairment of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets".

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

The Company is required to adopt SFAS 144 no later than the fiscal year beginning after December 15, 2001. In the first quarter of fiscal 2003, the Company adopted SFAS 144 for long-lived assets held for use. The adoption of SFAS 144 did not have a material impact on the Company's financial statements because the impairment assessment under SFAS 144 is largely unchanged from SFAS 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS 144 will have on the Company's financial statements.

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Forward Looking Statements: This report contains certain forward looking statements within the meaning of Section 27A of the Securities Act and Section 21E of 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 venture and investment 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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MISONIX, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market Risk:

The principal market risks (i.e. the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed are interest rates on short-term investments and foreign exchange rates, which generate translation gains and losses due to the English Pound to U.S. Dollar conversion of Labcaire.

Foreign Exchange Rates:

Approximately 24% of the Company's revenues in the first and second quarters of fiscal 2003 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 1.57 and 1.46 for the six months ended December 31, 2002 and 2001, 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.

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure the reliability of financial statements and other disclosures included in this report. Within the 90 days prior to the filing of this report, 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 pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective and timely in alerting them to material information required to be included in the Company's periodic Securities and Exchange Commission filings.

(b) Changes in Internal Controls

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There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date the Company carried out its evaluation.

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MISONIX, INC.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibit 99.1 - Certification of Periodic Report by Chief Executive Officer

Exhibit 99.2 - Certification of Periodic Report by Chief Financial Officer

(b) There were no reports on Form 8-K filed during the quarter ended December 31, 2002.

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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: February 10, 2003

MISONIX, INC.

(Registrant)

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

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

By: /s/ Richard Zaremba

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

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CERTIFICATIONS

I, Michael A. McManus, Jr., certify that:

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1. I have reviewed this quarterly report on Form 10-Q of MISONIX, INC.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 10, 2003

/s/ Michael A. McManus, Jr.

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

CERTIFICATIONS

I, Richard Zaremba, certify that:

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1. I have reviewed this quarterly report on Form 10-Q of MISONIX, INC.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 10, 2003

/s/ Richard Zaremba

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