UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

o **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: 0-11625

MICROFLUIDICS INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-2793022**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
30 Ossipee Road, Newton, Massachusetts	**02464**
(Address of principal executive offices)	(Zip Code)

(617) 969-5452

(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 (the Act) 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 o

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 o No o

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.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of August 9, 2010, 10,414,282 shares of the registrant s Common Stock, par value $.01 per share, were outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MICROFLUIDICS INTERNATIONAL CORPORATION

Condensed Consolidated Balance Sheets

(Unaudited - in thousands, except share and per share amounts)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,949	$ 2,185
Accounts receivable, net of allowance of $38 and $44 on June 30, 2010 and December 31, 2009, respectively	2,957	2,571
Inventories	2,683	2,916
Prepaid and other current assets	334	280
Total current assets	7,923	7,952
Property and equipment, net	757	891
Other non-current assets	442	535
Total assets	$ 9,122	$ 9,378
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 828	$ 545
Accrued expenses	1,474	1,727
Customer advances	459	1,137
Total current liabilities	2,761	3,409
Long-term liabilities:		
Convertible debt	4,707	4,679
Total liabilities	7,468	8,088
Stockholders equity:		
Common stock; $.01 par value; 30,000,000 and 30,000,000 shares authorized; 10,649,728 and 10,630,228 shares issued; 10,414,282 and 10,394,782 shares outstanding as of June 30, 2010 and December 31, 2009, respectively.	106	106
Additional paid-in capital	18,369	18,254
Accumulated deficit	(16,152)	(16,401)
Treasury stock, 235,446 shares, at cost, as of June 30, 2010 and December 31, 2009	(669)	(669)
Total stockholders equity	1,654	1,290
Total liabilities and stockholders equity	$ 9,122	$ 9,378

See notes to unaudited condensed consolidated financial statements.

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MICROFLUIDICS INTERNATIONAL CORPORATION

Condensed Consolidated Statements of Operations

(Unaudited - in thousands, except share and per share amounts)

	For The Three Months Ended June 30, 2010	For The Three Months Ended June 30, 2009	For The Six Months Ended June 30, 2010	For The Six Months Ended June 30, 2009
Revenues	$ 4,512	$ 3,469	$ 8,827	$ 7,028
Cost of sales	1,627	1,493	3,358	3,146
Gross profit	2,885	1,976	5,469	3,882
Operating expenses:				
Research and development	509	410	976	868
Selling	1,076	926	2,131	2,147
General and administrative	979	676	1,749	1,455
Total operating expenses	2,564	2,012	4,856	4,470
Income (loss) from operations	321	(36)	613	(588)
Interest expense	(178)	(142)	(364)	(282)
Interest income		1		3
Net income (loss)	$ 143	$ (177)	$ 249	$ (867)
Net income (loss) per common share:				
Basic	$ .01	$ (0.02)	$ .02	$ (0.08)
Diluted	$ .01	$ (0.02)	$ .02	$ (0.08)
Weighted average number of common and common equivalent shares outstanding:				
Basic	10,413,615	10,371,782	10,407,115	10,371,205
Diluted	10,612,677	10,371,782	10,615,769	10,371,205

See notes to unaudited condensed consolidated financial statements.

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MICROFLUIDICS INTERNATIONAL CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited - in thousands)

	For The Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 249	$ (867)
Adjustments to reconcile net income (loss) to net cash flows:		
Depreciation	61	80
Amortization of leasehold improvements	85	81
Amortization of intangibles	3	3
Amortization of deferred financing fees	90	31
Non-cash interest	28	27
Allowance for doubtful accounts	(6)	
Share-based compensation	108	88
Changes in assets and liabilities:		
Accounts receivable	(380)	(607)
Inventories	233	(120)
Prepaid expenses and other current assets	(54)	16
Accounts payable	283	165
Accrued expenses	(253)	(295)
Customer advances	(678)	(27)
Net cash flows used in operating activities	(231)	(1,425)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(12)	(72)
Net cash flows used in investing activities	(12)	(72)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	7	4
Net cash flows provided by financing activities	7	4
Net change in cash and cash equivalents	(236)	(1,493)
Cash and cash equivalents at beginning of period	2,185	1,895
Cash and cash equivalents at end of period	$ 1,949	$ 402

See notes to unaudited condensed consolidated financial statements.

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MICROFLUIDICS INTERNATIONAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of Business

Company Overview

References herein to we, us, our, or the Company are to Microfluidics International Corporation.

The Company, along with its wholly-owned subsidiary, Microfluidics Corporation (Microfluidics), operates in one segment, producing and marketing a broad line of proprietary high-shear fluid processing systems used primarily in the pharmaceutical, biotechnology, chemical, nutraceutical/food, energy, academics and cosmetic industries.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Microfluidics. All intercompany balances and transactions have been eliminated.

The Company s corporate headquarters and manufacturing operations are located in Newton, Massachusetts.

Certain accounts in the condensed consolidated financial statements and related notes have been reclassified to conform to current period presentation.

2. Interim Financial Statements

The condensed consolidated financial information for the three and six months ended June 30, 2010 are unaudited but include all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial position at such dates and of the operating results and cash flows for the periods. The results of operations for the three and six months ended June 30, 2010 and 2009 are not necessarily indicative of results that may be expected for the entire year. The information contained in this Form 10-Q should be read in conjunction with the Company s audited financial statements, included in its Annual Report on Form 10-K as of and for the year ended December 31, 2009 filed with the Securities and Exchange Commission (SEC) on March 29, 2010.

The balance sheet as of December 31, 2009 has been derived from the Company s audited consolidated 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.

3. Significant Accounting Policies

The significant accounting policies followed by the Company and its subsidiary in preparing its unaudited condensed consolidated financial statements are set forth in Note 1 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

4. Revenue Recognition

Revenue is recognized when all of the following criteria are met: i) persuasive evidence of an arrangement exists, ii) delivery has occurred, iii) the price to the customer is fixed or determinable, and iv) collectability is reasonably assured. In revenue transactions where support services are requested, revenue is recognized on shipment since this supportive service obligation is not essential to the functionality of the delivered products. Revenue transactions involving non-essential support services obligations are those which (1) can generally be completed in a short period of time at insignificant cost, (2) the skills required to complete these installations are not unique to the Company and in many cases can be provided by third parties or the customers and (3) the customer s purchase obligations are not contingent upon performance of support services, if any, by the Company. Proceeds received in advance of product shipment are recorded as customer advances in the consolidated balance sheets. Returns and customer credits are infrequent and recorded as a reduction to sales. Right of returns are not included in sales arrangements. Discounts from list prices are recorded as a reduction of sales. On occasion, the Company provides machines available for rent by customers. Income for the rental of equipment is recognized on a straight-line basis over the rental term. Rental income and product sales are classified in revenues in the consolidated statement of operations.

5. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2009-13 - *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (formerly Emerging Issues Task Force Issue No. 08-1). This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, and measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price

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hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company believes the adoption of this guidance will not have a material impact on the Company s consolidated results of operations or financial position.

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS No. 168 was codified as Accounting Standards Codification (ASC) Topic 105-10 and establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. We adopted ASC Topic 105-10 effective for the quarter ended September 30, 2009 and the adoption did not result in a significant impact on the Company s financial statements.

6. Stock Based Compensation

We account for stock-based compensation in accordance with the provisions of ASC 718, which requires us to recognize compensation expense for all stock-based payment awards made to employees and directors.

For the three month periods ended June 30, 2010 and 2009, the Company recognized stock based compensation expense of approximately $43,000 and $62,000, respectively. For the six month periods ended June 30, 2010 and 2009, the Company recognized stock based compensation expense of approximately $108,000 and $88,000, respectively. Stock-based compensation expense for the three and six month periods ended June 30, 2010 and 2009 is included in Research and Development, Selling, and General and Administrative expenses of the unaudited condensed consolidated statement of operations and allocated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Research and development	$ 11	$ 17	$ 27	$ 23
Selling	9	13	23	18
General and administrative	23	32	58	47
Total	$ 43	$ 62	$ 108	$ 88

The Company did not capitalize any stock-based compensation. The Company has established a valuation allowance for net deferred tax assets. Accordingly, no significant tax benefit on the stock-based compensation was recorded during the three and six month periods ended June 30, 2010 and 2009.

The fair value of each option granted during the three and six month periods ended June 30, 2010 and 2009 is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Dividend yield	None	None	None	None
Expected volatility	117%	111%	117%	111%
Risk-free interest rate	1.79%	2.00%	1.79%	2.00%
Expected life	5.0 years	5.0 years	5.0 years	5.0 years

The weighted average fair value of stock options granted during the six months ended June 30, 2010 and 2009 was $0.82 and $0.54 per share, respectively. We estimate forfeitures related to option grants at an annual rate of 9% and 11% for 2010 and 2009, respectively.

Total unrecognized stock-based compensation expense related to unvested stock options expected to be recognized over the service period, generally 4 years, amounted to approximately $823,000 and $770,00 at June 30, 2010 and 2009, respectively.

The Company has three (3) shareholder approved stock option plans (collectively, the Stock Option Plans) as follows: (i) the 1988 Stock Plan, which authorized the grant of stock rights for up to 3,500,000 shares of common stock (the 1988 Plan); (ii) the 1989 Non-Employee Director Stock Option Plan (the 1989 Plan), which authorized the grant of nonqualified stock options for up to 500,000 shares of common stock; and (iii) the 2006 Stock Plan (the 2006 Plan) which authorizes the grant of stock rights for up to 4,000,000 shares of common stock, decreased by the number of shares of common stock issued and issuable pursuant to awards outstanding under either the 1988 Plan or the 1989 Plan (together, the Prior Plans). The 2006 Plan was

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approved by the Company s shareholders at the Annual Meeting of Shareholders held on June 20, 2006. Upon adoption of the 2006 Plan by the Company s shareholders, we ceased granting new options under the Prior Plans. The Prior Plans permitted, and the 2006 Plan permits, the granting of stock awards to employees, officers, and non-employee members of the Board of Directors. Options granted under the Prior Plans and the 2006 Plan permit vesting over a 3-to-5 year period and expire 5-to-10 years from the date of grant. At June 30, 2010, 340,500 shares were available for future grants under the 2006 Plan and no shares were available for future grants under the Prior Plans.

During the three months ended June 30, 2010 the Company did not issue any stock options. During the three months ended June 30, 2009, the Company issued 150,000 stock options pursuant to the 2006 Plan at exercise prices equal to or greater than the fair market value of the Company s common stock on the date of the grant. During the six months ended June 30, 2010 and 2009, the Company issued 425,500 and 535,000 stock options, pursuant to the 2006 Plan, respectively, at exercise prices equal to or greater than the fair market value of the Company s common stock on the date of the grant.

Information regarding option activity for the six months ended June 30, 2010 under the 2006 Plan and Prior Plans is summarized below:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term in Years
Options outstanding as of January 1, 2010	1,434,609	$ 1.10	8.24
Granted	425,500	.90	6.12
Exercised	(9,500)	.28	
Cancelled	(90,580)	1.26	
Options outstanding as of June 30, 2010	1,760,029	1.05	8.02
Options exercisable as of June 30, 2010	750,193	1.18	6.70

7. Inventories

Inventories consist of the following:

(in thousands)	**June 30, 2010**	**December 31, 2009**
Raw materials	$ 2,315	$ 2,037
Work in progress	76	174
Finished goods	632	901
	3,023	3,112
Less: provision for excess inventory	(340)	(196)
Total inventories	$ 2,683	$ 2,916

8. Property, Plant and Equipment

Property, plant and equipment consist of the following:

(in thousands)	June 30, 2010	December 31, 2009
Furniture, fixtures and office equipment	$ 931	$ 923
Machinery, equipment and tooling	530	530
Leasehold improvements	910	906
	2,371	2,359
Less: accumulated depreciation and amortization	(1,614)	(1,468)
	$ 757	$ 891

9. Accrued Expenses

Accrued expenses consist of the following:

(in thousands)	June 30, 2010	December 31, 2009
Accrued expenses	$ 263	$ 319
Accrued wages, bonus and vacation pay	418	644
Accrued commissions	339	367
Accrued interest	414	338
Accrued warranty	40	59
	$ 1,474	$ 1,727

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10. Earnings Per Share

Basic net (loss) per common share was determined by dividing net (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock, unless the effects of dilution would be anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Shares for computation of basic net income (loss) per share	10,414	10,372	10,407	10,371
Shares for computation of diluted net income (loss) per share	10,613	10,372	10,616	10,371

11. Industry Segment, Geographic and Enterprise-Wide Information

The Company has determined that it conducts its operations in one business segment: producing and marketing a broad line of proprietary high shear fluid processing systems used primarily in the pharmaceutical, biotechnology, chemical, nutraceutical/food, academic and cosmetics industries. The Company has less than 3% of total assets in foreign countries. As a result, the financial information disclosed herein represents all of the material financial information related to the Company s principal operating segment.

Approximate sales to customers by geographic markets, and percentage of total sales by geographic market, are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands)	**2010**		**2009**		**2010**		**2009**	
North America	$ 2,440	54.1%	$ 1,545	44.5%	$ 5,113	57.9%	$ 3,984	56.7%
Asia	879	19.5%	846	24.4%	1,357	15.4%	1,242	17.7%
Europe	1,193	26.4%	1,078	31.1%	2,357	26.7%	1,802	25.6%
	$ 4,512	100%	$ 3,469	100.0%	$ 8,827	100%	$ 7,028	100.0%

One customer accounted for 10.7% of the Company s revenues for the three months ended June 30, 2010. Two customers accounted for 28.8% of the Company s revenues for the three months ended June 30, 2009. For the six month period ended June 30, 2010 and 2009, no customer accounted for more than 10% of revenues.

One customer accounted for 26.1% of the trade accounts receivable as of June 30, 2010 and two customers each accounted for 10% of the trade accounts receivable as of June 30, 2009. A reduction or delay in orders from any of the Company s significant customers could have a material adverse effect on the Company s results of operations.

12. Stockholders Equity

During the three months ended June 30, 2010, the Company issued 2,000 shares of common stock as a result of the exercise of options by an employee which generated cash proceeds of approximately $1,000. During the three months ended June 30, 2009, the Company issued no shares of commons stock as a result of the exercise of options by employees and directors. During the six months ended June 30, 2010, the Company issued 9,500 shares of common stock as a result of the exercise of options by a former director and an employee which generated cash of approximately $4,000. During the six months ended June 30, 2009, the Company issued no shares of common stock as a result of the exercise of options by employees and directors.