

Edgar Filing: MISONIX INC - Form 10-Q/A

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

FORM 10-Q/A  
Amendment No. 2

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended December 31, 2002  
-----

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 1-10986

MISONIX, INC.

-----  
(Exact name of registrant as specified in its charter)

New York  
-----

11-2148932  
-----

(State or other jurisdiction of  
incorporation or organization)

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

1938 New Highway, Farmingdale, NY  
-----

11735  
-----

(Address of principal executive offices)

(Zip Code)

(631) 694-9555  
-----

(Registrant's telephone number, including area code)

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

Yes X No  
--- ---

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

Yes No X  
--- ---

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

| Class of Common Stock                  | Outstanding at<br>February 1, 2003 |
|--|------------------------------------|
| -----<br>Common Stock, \$.01 par value | -----<br>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,<br>2002 |       |
|---|----------------------|-------|
|   | -----                | ----- |
| ASSETS  | (UNAUDITED)          | ----- |
| Current assets:   |                      |       |
| Cash and cash equivalents   | \$ 1,330,933         | \$    |
| Accounts receivable, less allowance for doubtful accounts of \$231,544 and \$223,413, respectively  | 6,917,694            |       |
| Inventories   | 8,817,528            |       |
| Prepaid income taxes  | 1,903,168            |       |
| Deferred income taxes   | 412,174              |       |
| Prepaid expenses and other current assets   | 614,472              |       |
|   | -----                | ----- |
| Total current assets  | 19,995,969           | 1     |
| Property, plant and equipment, net  | 3,511,668            |       |
| Deferred income taxes   | 577,104              |       |
| Goodwill  | 4,473,713            |       |
| Other assets  | 302,406              |       |
|   | -----                | ----- |
| Total assets  | \$28,860,860         | \$2   |
|   | =====                | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |                      |       |
| Current liabilities:  |                      |       |
| Revolving credit facilities   | \$ 1,195,076         | \$    |
| Accounts payable  | 3,580,796            |       |
| Accrued expenses and other current liabilities  | 1,215,905            |       |
| Litigation settlement liabilities   | 170,000              |       |
| Current maturities of long-term debt and capital lease obligations                                  | 288,688              |       |
|   | -----                | ----- |
| Total current liabilities   | 6,450,465            |       |
| Long-term debt and capital lease obligations  | 1,252,373            |       |
| Deferred income   | 490,377              |       |
| Minority interest   | 206,130              |       |
| Stockholders' equity:   |                      |       |
| Common stock, \$.01 par value-shares authorized 10,000,000; 6,718,665 issued, 6,644,365 outstanding | 67,186               |       |
| Additional paid-in capital  | 22,701,711           | 2     |
| Retained deficit  | (1,856,861)          | (     |
| Treasury stock, 74,300 shares   | (401,974)            |       |
| Accumulated other comprehensive loss  | (48,547)             |       |
|   | -----                | ----- |
| Total stockholders' equity  | 20,461,515           | 1     |
|   | -----                | ----- |
| Total liabilities and stockholders' equity  | \$28,860,860         | \$2   |
|   | =====                | ===== |

See accompanying Notes to Consolidated Financial Statements.

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

1. Basis of Presentation  
-----

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2002 are not necessarily

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

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

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2002.

### 2. Acquisition

Labcaire Systems Ltd.

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

### 3. Inventories

-----  
 Inventories are summarized as follows:

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

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MISONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

=====

### 4. Accrued Expenses and Other Current Liabilities

-----  
 The following summarizes accrued expenses and other current liabilities:

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



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

### 5. Loans to Affiliates

-----

Hearing Innovations, Inc.

-----

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

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MISONIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

=====

### 6. Business Segments

-----

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

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

For the six months ended December 31, 2002:

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

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

For the three months ended December 31, 2002:

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

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

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

=====

For the six months ended December 31, 2001:

|                                      | Medical<br>Devices | Industrial<br>Products | (a)<br>Corporate and<br>Unallocated | Total        |
|--------------------------------------|--------------------|------------------------|-------------------------------------|--------------|
|                                      | -----              | -----                  | -----                               | -----        |
| Net sales                            | \$ 5,804,101       | \$ 8,521,957           | \$ -                                | \$14,326,058 |
| Cost of goods sold                   | 3,152,693          | 4,662,858              | -                                   | 7,815,551    |
|                                      | -----              | -----                  |                                     | -----        |
| Gross profit                         | 2,651,408          | 3,859,099              | -                                   | 6,510,507    |
| Selling expenses                     | 462,045            | 1,595,443              | -                                   | 2,057,488    |
| Research and development<br>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   |
|                                      | =====              | =====                  | =====                               | =====        |