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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION
13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 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 no. 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, New York	11735
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (631) 694-9555

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value
(Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Sec.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant on September 16, 2002 (computed by reference to the average bid and asked prices of such stock on such date) was approximately $35,414,017.

There were 6,105,865 shares of Common Stock outstanding at September 16, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

None

This Report on Form 10-K/A, and the Company's other periodic reports and other documents incorporated by reference or incorporated herein as exhibits, may contain forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, general economic conditions, competition, technological advances, claims or lawsuits, and the market's acceptance or non-acceptance of the Company's products.

PART I

ITEM 1. BUSINESS.

OVERVIEW

MISONIX, INC. ("Misonix" or the "Company") is a New York corporation, which, through its predecessors, was first organized in 1959. The Company designs, manufactures and markets ultrasonic medical devices. The Company also develops and markets ultrasonic equipment for use in the scientific and industrial markets, ductless fume enclosures for filtration of gaseous contaminates, and environmental control products for the abatement of air pollution.

The Company's operations outside the United States consist of a 97.3% ownership in Labcaire Systems, Ltd. ("Labcaire"), which is based in North Somerset, England. This business consists of designing, manufacturing and marketing air-handling systems for the protection of personnel, products and the environment from airborne hazards.

Misonix's 90% owned subsidiary, Acoustic Marketing Research, Inc. doing business as Sonora Medical Systems, Inc. ("Sonora"), located in Longmont, Colorado, is an ISO 9002 certified refurbisher of high-performance ultrasound systems and replacement transducers for the medical diagnostic ultrasound industry. Sonora also offers a full range of aftermarket products and services such as its own ultrasound probes and transducers, and other services that can extend the useful life of its customers' ultrasound imaging systems beyond the usual five to seven years.

In fiscal 2002 approximately 34.9% of the Company's net sales were to foreign markets. Labcaire, which acts as the European distributor of the Company's industrial products and manufactures and sells the Company's fume enclosure line as well as its own range of laboratory environmental control products, represents approximately 85% of the Company's net sales to foreign markets.

Sales by the Company in other major industrial countries are made primarily through distributors.

There are no additional risks for products sold by Labcaire as compared to other products marketed and sold by Misonix in the United States. Labcaire experiences minimal currency exposure since major portions of its revenues are from the United Kingdom. Labcaire revenues outside the United Kingdom are remitted in British Pounds.

Sonora represents approximately 3% of the net sales to foreign markets. These sales have no additional risks as most sales are secured by letters of credit and are remitted in US currency.

MEDICAL DEVICES

The Company's medical device products are subject to the regulatory requirements of the Food and Drug Administration ("FDA"). A medical device as defined by the FDA is a an instrument, apparatus implement, machine, contrivance, implant, in vitro reagent, or other similar or related article, including a components, part, or accessory, which is recognized in the official National Formulary, or the United States Pharmacopoeia, or any supplement to them, intended for use in the diagnosis of disease or other conditions, or in the cure, mitigation, treatment, or prevention of disease, in man or other animals, or intended to affect the structure or any function of the body of man or other animals, and which does not achieve any of its primary intended purposes through chemical action within or on the body of man or other animals and which is not dependent upon being metabolized for the achievement of any of its primary intended purposes. All current devices manufactured and sold by the Company have all the necessary regulatory approvals. The Company's products that are subject to FDA regulations for product labeling and promotion comply with all applicable regulations. The Company is listed with the FDA as a Medical Device Manufacturer and has the appropriate Establishment Numbers in place. The Company has post-market monitoring system in place such as Complaint Handling and Medical Device Reporting procedures. The Company is not aware of any situations which would be adverse at this time nor has the FDA sought legal remedies available against or have there been any violations of its regulations alleged against the Company.

In October 1996, the Company entered into a twenty-year license agreement (the "USS License") with United States Surgical Corporation ("USS") covering the further development of the Company's medical technology relating to ultrasonic cutting, which uses high frequency sound waves to coagulate and divide tissue for both open and laproscopic surgery. The USS License gives USS exclusive worldwide marketing and sales rights for this technology and device. The Company received $100,000 under the option agreement preceding the USS License. Under the USS License, the Company sells such device to USS. In addition to receiving payment from USS for its orders of the device, the Company has received aggregate licensing fees of $475,000 and receives royalties based upon USS net sales of such device. Licensing fees from the USS License are amortized over the term of the USS License. Also as part of the USS License, the Company was reimbursed for certain product development expenditures. There was no reimbursement for the fiscal years ended June 30, 2002 and 2001. The amount of reimbursement was $53,563 for the fiscal year ended June 30, 2000. In November 1997, the Company began manufacturing this device for USS and recognized its first revenues for this product. Total sales of this device were approximately $4,060,000, $7,685,000 and $7,849,000 during the fiscal years ended June 30, 2002, 2001 and 2000, respectively.

On March 30, 2000, the Company, Medical Device Alliance, Inc. ("MDA") and

LySonix, Inc. ("LySonix"), a subsidiary of MDA, signed a new ten-year exclusive License Agreement (the "MDA Agreement") for the worldwide marketing of the soft tissue aspirator for aesthetic and cosmetic surgery applications. As of July 1, 2001, the MDA Agreement became a non-exclusive agreement. Effective April 2002, the Company and MDA/LySonix mutually agreed to terminate the MDA Agreement. In connection with the litigation discussed further in Item. 3, "Legal Proceeding", the Company paid $1,000,000 to purchase certain assets of MDA/LySonix, which the Company expects to utilize in the future.

In June 2002, the Company entered into a ten-year worldwide distribution agreement with Mentor Corporation ("Mentor") for the sale and distribution of the Lysonix 2000 soft tissue aspirator used for cosmetic surgery. This agreement is a standard agreement for such distribution in that it specifies the product to be distributed, the terms of the agreement and the price to be paid for product covered under the agreement. The agreement also was not conditional upon execution of the court settlement.

Fibra Sonics, Inc.

On February 8, 2001, the Company acquired certain assets and liabilities of Fibra Sonics, Inc. ("Fibra Sonics"), a Chicago-based, privately held producer and marketer of ultrasonic medical devices for approximately $1,900,000. This acquisition gives the Company access to three important new medical markets, namely, neurology with its Neuro Aspirator product, urology and ophthalmology. Subsequent to the acquisition, the Company relocated the assets of Fibra Sonics to the Company's Farmingdale facility. The acquisition was accounted for under the purchase method of accounting. Accordingly, the acquired assets and liabilities have been initially recorded at their estimated fair values at the date of acquisition. The excess of the cost of the acquisition ($1,723,208 plus acquisition costs of $144,696, which includes a broker fee of $100,716) over the fair value of net assets acquired was $1,814,025 and is being treated as goodwill. In fiscal year 2002, the Company re-evaluated fixed assets acquired from Fibra Sonics and reclassed approximately $54,000 from property plant and equipment to goodwill. In addition to the purchase price, contingent consideration of up to, but not exceeding, $1,120,000 may have been paid based upon sales generated during the consecutive twelve months commencing June 1, 2001. As of June 30, 2002, sales generated did not meet the criteria to warrant additional consideration, therefore, no additional payments were made for the acquisition of Fibra Sonics.

Focus Surgery, Inc.

On May 3, 1999, the Company entered into an agreement with Focus Surgery, Inc. ("Focus") to obtain a 20% equity position in Focus for $3,050,000 and representation on its Board of Directors. Additionally, the Company has options and warrants to purchase an additional 7% of Focus. Focus is located in Indianapolis, Indiana. The agreement provides for a series of development and manufacturing agreements whereby Misonix would upgrade existing Focus products, currently the Sonablate(R) 500, and create new products based on high intensity focused ultrasound ("HIFU") technology for the non-invasive treatment of tissue for certain medical applications. The Company has the right of utilizing HIFU technology for the treatment of both benign and cancerous tumors of the breast, liver and kidney and the right of first refusal to purchase 51% of Focus. In February 2001, the

Company exercised its right to start research and development for the treatment of kidney tumors utilizing HIFU technology and in September 2002, funded $50,000 to Focus, which is being treated as a research and development expense in the first quarter of fiscal 2003 using HIFU technology.

There have been over 1,500 patients successfully treated for Benign Prostatic Hyperplasia ("BPH") outside the U.S. utilizing the HIFU technology. Focus has signed a three-year distribution agreement with Endocare, Inc. to distribute the Sonablate 500 in Europe. In the U.S., the Sonablate 500 completed Phase III clinical trials for the noninvasive treatment of BPH, commonly known as enlarged prostate. Focus is currently waiting for the time allowed for follow up on all parties to expire and expects to submit the remaining data to the FDA in October 2002. Focus is also utilizing HIFU technology to treat prostate cancer in Japan. There have been 85 people successfully treated in Japan.

In December 2000, Focus Surgery received Investigational Device Exemption ("IDE") from the FDA to treat 40 patients for prostate cancer; these comprise 20 patients who have never been treated and 20 patients who have been successfully treated by another modality. The IDE will be conducted at Indiana University Medical Center and Case Western Reserve Medical Center. To date, Focus has treated 14 of the 40 patients for prostate cancer.

On November 7, 2000, the Company purchased a $300,000, 5.1% Secured Cumulative Convertible Debenture from Focus, due December 22, 2002 (the "5.1% Focus Debenture"). The 5.1% Focus Debenture is convertible into 250 shares of Focus preferred stock at the option of the Company at any time after December 22, 2000 for two years at a conversion price of $1,200 per share, if the 5.1% Focus Debenture is not retired by Focus. Interest accrues and is payable at maturity, or is convertible on the same terms as the Focus Debenture's principal amount. The 5.1% Focus Debenture is secured by a lien on all of Focus' right, title and interest in accounts receivable, inventory, property, plant and equipment and processes of specified products whether now existing or hereafter arising after the date of the 5.1% Focus Debenture. The Company recorded an allowance against the entire balance of principal and accrued interest due at June 30, 2002 and 2001 of $15,300 and $308,991, respectively. The related expense has been included in loss on impairment of investment in the accompanying consolidated statements of operations. The Company believes the loan is impaired since the Company does not anticipate the 5.1% Focus Debenture to be satisfied in accordance with the contractual terms of the loan agreement.

On April 12, 2001, the Company purchased a $300,000, 6% Secured Cumulative Convertible Debenture from Focus, due May 25, 2003 (the "6% Focus Debenture"). The 6% Focus Debenture is convertible into 250 shares of Focus preferred stock at the option of the Company at any time after May 25, 2003 for two years at a conversion rate of $1,200 per share, if the 6% Focus Debenture is not retired by Focus. Interest accrues and is payable at maturity, or is convertible on the same terms as the 6% Focus Debenture's principal amount. The 6% Focus Debenture is secured by a lien on all of Focus' right, title and interest in accounts receivable, inventory, property, plant and equipment and processes of specified products whether now existing or hereafter arising after the date of the 6% Focus Debenture. The Company recorded an allowance against the entire balance of principal and accrued interest due at June 30, 2002 and 2001 of $18,000 and $303,667, respectively. The related expense has been included in loss on impairment of investment in the accompanying consolidated statement of operations. The related expense has been included in loss on impairment of investment in the accompanying consolidated statements of operations. The Company believes the loan is impaired since the Company does not anticipate the 6% Focus Debenture to be satisfied in accordance with the contractual terms of the loan agreement.

On July 31, 2001, the Company purchased a second $300,000, 6% Secured Cumulative Convertible Debenture from Focus, due May 25, 2003 (the "Focus Debenture"). The Focus Debenture is convertible into 250 shares of Focus preferred stock at the option of the Company at any time up until the due date at a purchase price of $1,200 per share. The Focus Debenture also contains warrants, which are deemed nominal in value, to purchase an additional 125 shares to be exercised at the

option of the Company. Interest accrues and is payable at maturity or is convertible on the same terms as the Focus Debenture's principal amount. The Focus Debenture is secured by a lien on all of Focus' right, title, and interest in accounts receivable, inventory, property, plant and equipment and process of specified products whether now existing or arising after the date of the Focus Debenture. The Company recorded an allowance against the Focus Debenture of $300,000 and accrued interest of

$16,500 since the Company does not anticipate that the Focus Debenture will be paid in accordance with the contractual terms of the loan agreement. The related expense has been included in loss on impairment of loans to affiliated entities in the accompanying consolidated statements of operations.

If the Company were to convert the 5.1% Focus Debenture, 6% Focus Debenture and Focus Debenture and exercise all warrants, the Company would hold an interest in Focus of approximately 27%.

During fiscal 2002, the Company entered into a loan agreement whereby Focus borrowed $60,000 from the Company. This loan matured on May 30, 2002 and was extended to December 31, 2002. The loan bears interest at 6% per annum and contains warrants to acquire additional shares. These warrants are deemed nominal in value. The loan is secured by a lien on all of Focus' 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 the loan. The Company recorded an allowance against the entire balance of $60,000 and accrued interest of $900. The related expense has been included in loss on impairment of loans to affiliated entities in the accompanying consolidated statements of operations. The Company believes that this loan is impaired since the Company does not anticipate that this loan will be paid in accordance with the contractual terms of the loan agreement.

The Company's portion of the net losses of Focus were recorded since the date of acquisition in accordance with the equity method of accounting. During fiscal 2001, the Company evaluated the investment with respect to the financial performance and the achievement of specific targets and goals and determined that the equity investment was impaired and therefore the Company recorded an impairment loss in the amount of $1,916,398. The net carrying value of the investment at June 30, 2002 and 2001 is $0.

Hearing Innovations, Inc.

On October 18, 1999, the Company and Hearing Innovations, Inc. ("Hearing Innovations") completed the agreement whereby the Company invested an additional $350,000 and cancelled notes receivable aggregating $400,000 in exchange for a 7% equity interest in Hearing Innovations and representation on its Board of Directors. Warrants to acquire 388,680 shares of Hearing Innovations common stock ranging from $1.25 to $2.25 per share are also part of this agreement. These warrants, which are deemed nominal in value, expire October 2005. Upon exercise of the warrants, the Company has the right to manufacture Hearing Innovations' ultrasonic products and also has the right to create a joint venture with Hearing Innovations for the marketing and sale of its ultrasonic tinnitus masker device. As of the date of the acquisition, the cost of the investment was $784,000 ($750,000 plus acquisition costs of $34,000). Hearing Innovations is located in Tucson, Arizona. Hearing Innovations is focusing on multiple applications for its patented supersonic bone conduction hearing technology. The HiSonic(R) is a 510(k) approved (FDA approved) noninvasive hearing device that processes audible sounds into supersonic vibrations that can be heard and understood as speech through bone conduction. For the profoundly deaf, the HiSonic is the only known available alternative therapy to cochlear

implant surgery. HiSonic is completely noninvasive and may cost 80% less than surgery. Tinnitus is characterized by constant sound in the ear that can range from a metallic ringing, buzzing, popping or nonrhythmic beating. Currently, it is estimated that 50 million people suffer from Tinnitus, of which approximately 2 million cases are considered severe. There are currently no cures but only temporary relief. Hearing Innovations has tested an ultrasound device which resulted in 71% of patients tested achieving either partial or complete masking as well as partial residual inhibition. Hearing Innovations has also received a 510(k) from the FDA for the Tinnitus product, Hisonic, TRD.

On September 11, 2000, the Company loaned $108,000 to Hearing Innovations, which together with the then outstanding loans aggregating approximately $192,000 (with accrued interest) were exchanged for a $300,000, 7% Secured Convertible Debenture due August 27, 2002 and extended to November 30, 2003 (the "Hearing Debenture"). The Hearing Debenture contains warrants to acquire 250,000 shares of Hearing Innovations common stock, at the option of the Company, for $2.25 per share. These warrants, which are deemed nominal in value, expire October 2005. Interest accrues and is payable at maturity, or is convertible on the same terms as the Hearing Debenture's principal amount. The Company recorded an allowance against the entire balance of principal and accrued interest due at June 30, 2002 and 2001 of $21,000 and $316,625, respectively. The related expense has been included in loss on impairment of investment in the accompanying consolidated statements of operations. The

Company believes the Hearing Debenture is impaired since the Company does not anticipate such Debenture to be satisfied in accordance with the contractual terms of the loan agreement.

During fiscal 2001, the Company entered into fourteen loan agreements whereby Hearing Innovations was required to pay the Company an aggregate amount of $397,678 due May 30, 2002. The maturity date was extended to 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 hereafter arising after the date of these agreements. The loan agreements contain warrants to acquire 1,045,664 shares of Hearing Innovations common stock, at the option of the Company, at a cost that ranges from $2.00 to $2.25 per share. These warrants, which are deemed nominal in value, expire October 2005. The Company recorded an allowance against the entire balance of $31,058 and $397,678 due at June 30, 2002 and 2001, respectively. The related expense has been included in loss on impairment of investment in the accompanying consolidated statements of operations. The Company believes the loans are impaired since the Company does not anticipate these loans will be paid in accordance with the contractual terms of the loan agreements.

During fiscal 2002, the Company entered into fifteen loan agreements whereby Hearing Innovations was required to pay the Company an aggregate amount of $322,679 due May 30, 2002, extended to November 30, 2003, and $151,230 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 548,329 shares of Hearing Innovations common stock, at the option of the Company, at a cost that ranges from $.01 to $2.00 per share. These warrants, which are deemed nominal in value, expire October 2005. The Company recorded an allowance against the entire balance of $473,909 and accrued interest of $16,230 for the above loans. The related expense has been included in loss on impairment of loans to

affiliated entities in the accompanying consolidated statement 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.

If the Company were to exercise all warrants associated with the above loans, exercise the warrants associated with the Hearing Debenture and the original investment and include the original investment ownership, the Company would hold an interest in Hearing Innovations of approximately 41%.

The Company's portion of the net losses of Hearing Innovations were recorded since the date of acquisition in accordance with the equity method of accounting. During fiscal 2001, the Company evaluated the investment with respect to the financial performance and the achievement of specific targets and goals and determined that the equity investment was impaired and therefore the Company recorded an impairment loss in the amount of $579,069. The net carrying value of the investment at June 30, 2002 and 2001 is $0.

In August 2002, the President of Hearing Innovations resigned and the Board of Directors of Hearing Innovations named Kenneth Coviello Chief Executive Officer of Hearing Innovations. Kenneth Coviello is the Vice President of Medical Devices of the Company.

Sonora Medical Systems, Inc.

On November 16, 1999, the Company acquired a 51% interest in Sonora for approximately $1,400,000. Sonora authorized and issued new common stock for the 51% interest. Sonora utilized the proceeds of such sale to increase inventory and expand marketing, sales, and research and development efforts. An additional 4.7% was acquired from the principals of Sonora on February 25, 2000, for $208,000, bringing the acquired interest to 55.7%. The principals of Sonora sold an additional 34.3% to Misonix on June 1, 2000 for approximately $1,407,000, bringing the acquired interest to 90%. Sonora, located in Longmont, Colorado, is an ISO 9002 certified refurbisher of high-performance ultrasound systems and replacement transducers for the medical diagnostic ultrasound industry. Sonora also offers a full range of aftermarket products and services such as its own ultrasound probes and transducers, and other services that can extend the useful life of its customers' ultrasound imaging systems beyond the usual five to seven years. Sonora has developed the First Call 2000, a device that

provides objective data necessary to periodically test transducers for performance variances. The acquisition of Sonora was accounted for under the purchase method of accounting. Accordingly, results of operations for Sonora are included in the consolidated statements of operations from the date of acquisition and acquired assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess of the cost of the acquisition ($2,957,000 plus acquisition costs of $101,000, which includes a broker fee of $72,000) over the fair value of net assets acquired was $1,622,845 and is being treated as goodwill.

On July 27, 2000, Sonora acquired 100% of the assets of CraMar Technologies, Inc. ("CraMar"), an ultrasound equipment servicer for approximately $311,000. The assets of the Colorado-based, privately-held operations of CraMar were relocated to Sonora's facility in Longmont, Colorado. The acquisition was accounted for under the purchase method of accounting. Accordingly, acquired assets have been recorded at their estimated fair values at the date of acquisition. The excess of the cost of the acquisition ($272,908 plus acquisition costs of $37,898, which includes a broker fee of $25,000) over the

fair value of net assets acquired was $257,899 and is being treated as goodwill.

On October 12, 2000, Sonora, acquired the assets of Sonic Technologies Laboratory Services ("Sonic Technologies"), an ultrasound acoustic measurement and testing laboratory for approximately $320,000. The assets of the Hatboro, Pennsylvania-based operations of privately-held Sonic Technologies were relocated to Sonora's facility in Longmont, Colorado. The acquisition was accounted for under the purchase method of accounting. Accordingly, acquired assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess of the cost of the acquisition ($270,000 plus acquisition costs of $51,219, which includes a broker fee of $25,000) over the fair value of net assets acquired was $301,219 and is being treated as goodwill.

INDUSTRIAL PRODUCTS

The Company's other revenue-producing activities consist of the manufacturing and sale of the Sonicator(R) ultrasonic liquid processor and cell disrupter, the distribution of other ultrasonic equipment for scientific and industrial purposes, the manufacturing and sale of Aura ductless fume enclosures for filtration of gaseous contaminants and the manufacture and sale of Mystaire scrubbers for the abatement of air pollution.

The Sonicator device is used to disrupt cells and bacteria. Similar procedures are used in biotechnology in the production of medications and chemicals. The Sonicator is also used in the acceleration of chemical reactions and the extraction of proteins from cells such as Ecoli and yeast. Sonication can strip away the outer coating of a virus and fragment DNA for immunological studies. It is also widely applied in manufacturing pharmaceuticals, homogenizing pigments and dyes and improving the quality and consistency of these products. All these processes are accomplished through the use of ultrasound, which creates a reaction called cavitation.

The Aura fume enclosures are ductless filtration and containment hoods which are portable and easy to install. They work through forcing contaminated air through a filter process that extracts the contaminants and introduces clean air back into the environment. They eliminate the ductwork that is otherwise necessary for exhausting to the outside air. The enclosures are sold to clinical, research, educational and industrial laboratories for various industrial purposes. Laboratory applications include working with organic solvents and radioisotopes, chemical storage, chemical dispensing, pathology and histology. Industrial markets for the product line include the pharmaceutical, semiconductor manufacturing and asbestos containment industries. The fume enclosures are a general purpose recirculating system with activated carbon filters that purify air and remove airborne fumes, odors and particulates.

The technology used in the Aura ductless fume enclosures has been adapted for specific uses in the crime laboratory. The Forensic Evidence Cabinet protects wet evidence from contamination while it is drying and simultaneously protects law enforcement personnel from evidence that can be noxious and hazardous. The Cyanoacrylate (liquid glue) Fuming Chamber is used by fingerprinting experts to develop fingerprints on non-porous surfaces while providing protection from the highly hazardous cyanoacrylate fumes.

In June 1992, the Company initially acquired an 81.4% interest in Labcaire for $545,169. The total acquisition cost exceeded the fair value of the net assets acquired by $241,299, which is being treated as goodwill.

Currently, the Company owns a 97.3% interest in Labcaire. The balance of the capital stock of Labcaire is owned by three executives and one retired executive

of Labcaire, who have, under a purchase agreement (the "Labcaire Agreement"), agreed to sell one-seventh of their total holdings of Labcaire shares to the Company in each of seven consecutive years, commencing with the fiscal year ended June 30, 1996. Under the Labcaire Agreement, the Company is required to repurchase such shares at a price equal to one-seventh of each executive's prorata share of 8.5 times Labcaire's earnings before interest, taxes, and management charges for the preceding fiscal year. Pursuant to the Labcaire Agreement, 9,284 shares (2.65%) of Labcaire common stock were purchased by the Company for approximately $102,000 in October 1996 for the year ended June 30, 1997, 9,286 shares (2.65%) were purchased by the Company for approximately $119,000 in October 1997 for the year ended June 30, 1998, 9,286 shares (2.65%) were purchased by the Company for approximately $129,000 in October 1998 for the year ended June 30, 1999, 9,286 shares (2.65%) were purchased by the Company for approximately $174,000 in October 1999 for the year ended June 30, 2000, 9,286 shares (2.65%) were purchased by the Company for approximately $117,000 in October 2000 for the year ended June 30, 2001, 9,286 shares (2.65%) were purchased by the Company for approximately $100,000 in October 2001 for the year ended June 30, 2002 and the remaining 9,286 shares (2.7%) will be purchased by the Company for approximately $209,000 for the year ended June 30, 2003. The effective date of this transaction is expected to be in October 2002. The Company will then own 100% of Labcaire.

Labcaire's business consists of designing, manufacturing, and marketing air handling systems for the protection of personnel, products and the environment from airborne hazards. These systems work similar to the Aura fume enclosures where they extract noxious disinfectant fumes through a series of filters to introduce clean air back into the environment. There are no additional risks for products sold by Labcaire as compared to other products marketed and sold by the Company in the United States. Labcaire experiences minimal currency exposure since a major portion of its revenues are from the United Kingdom. Revenues outside the United Kingdom are remitted in British Pounds. Labcaire is also the European distributor of the Company's ultrasonic industrial products. The present management of Labcaire consists of four executives/minority interest shareholders with experience in chemical containment and air handling technologies. Labcaire manufactures class 100 biosafety hazard enclosures used in laboratories to provide sterile environments and to protect lab technicians from airborne contaminants, and class 100 laminar flow enclosures. Labcaire also manufactures the Company's ductless fume enclosures for the European market and sells the enclosures under its trade name. Labcaire has developed and now manufactures and sells an automatic endoscope disinfection system ("Autoscope"). The Autoscope disinfects and rinses several endoscopes while abating the noxious disinfectant fumes produced by the cleaning process. In fiscal 2002, Labcaire introduced the Guardian endoscope cleaner, which is compliant with the latest UK standards.

The Company's products are proprietary in that they primarily utilize ultrasound as a technology base to solve both industrial and medical issues. The Company has technical expertise in ultrasound and utilizes ultrasound in many applications, which management believes makes the Company unique. The Company's ultrasound technology is the core surrounding its business model.

The Mystaire scrubber is an air pollution abatement system, which removes difficult airborne contaminants emitted from laboratory and industrial processes. The contaminants are emulsified in a liquid and cleansed through a series of filtered material. The scrubber operates on a broad range of contaminants and is particularly effective on gaseous contaminants such as acid gases, mists, particulate matter, negative gases and sulfur oxides. The Company also manufactures a range of "point of use" scrubbers for the microelectronics industry. This equipment eliminates low levels of toxic and noxious contaminants arising from silicon wafer production.

MARKET AND CUSTOMERS

Medical Devices

The Company relies on its licensee, USS, a significant customer, for marketing its ultrasonic surgical device. The Company relies on direct salespersons and distributors such as Mentor Corporation, Aesculab, Inc. and ACMI Corporation and manufacturing representatives for the marketing of its other medical products.

Sonora relies on direct salespersons and distributors for the marketing of its ultrasonic medical devices. Focus Surgery plans to sell and market its products for BPH, once approved by the FDA, through a distribution partner in the US. Focus is utilizing an international distribution partner, Endocare Inc. to distribute the Sonablate 500 in the European market. Hearing Innovations plans on marketing and selling its products to the profoundly deaf and tinnitus product directly to customers.

In June 2002, the Company entered into a ten-year worldwide distribution agreement with Mentor for the sale and distribution of the Lysonix 2000 soft tissue aspirator used for cosmetic surgery. This agreement is a standard agreement for such distribution in that it specifies the product to be distributed, the terms of the agreement and the price to be paid for product covered under the agreement. The agreement also was not conditional upon execution of the court settlement.

Industrial Products

The Company relies on direct salespersons, distributors, manufacturing representatives and catalog listings for the marketing of its industrial products. The Company currently sells its products through five manufacturing representatives and ten distributors in the United States. The Company currently employs direct sales persons who operate outside the Company's offices and conducts direct marketing on a regional basis.

The market for the Company's ductless fume enclosures includes laboratory or industrial environments in which workers may be exposed to noxious fumes or vapors. The products are suited to laboratories in which personnel perform functions which release noxious fumes or vapors (including hospital and medical laboratories), industrial processing (particularly involving the use of solvents) and soldering, and other general chemical processes. The products are particularly suited to users in the pharmaceutical, semiconductor, biotechnology, and forensic industries.

The largest market for the Company's Sonicator includes research and clinical laboratories worldwide. In addition, the Company has expanded its sales of the ultrasonic processor into industrial markets such as paint, pigment, ceramic and pharmaceutical manufacturers.

In fiscal 2002, approximately 35% of the Company's net sales were to foreign markets. Labcaire, a subsidiary of the Company, acts as the European distributor of the Company's industrial products and manufactures and sells the Company's fume enclosure line as well as its own range of laboratory environmental control products, such as the Guardian endoscope. Sales by the Company in other major industrial countries are made through distributors.

The Company views a wide range of industries as prospective customers for its pollution abatement scrubbers. Scrubbers are usable in any industry or environment in which airborne contaminants are created, in particular, the semiconductor manufacturing, chemical processing and pharmaceuticals industries.

MANUFACTURING AND SUPPLY

Medical Devices

The Company manufactures and assembles its medical devices and Focus and Hearing Innovations products at its production facility located in Farmingdale, New York. The Company's products include components manufactured by other companies in the United States. The Company is not dependent upon any single source of supply and has no long-term supply agreements. The Company believes that it will not encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs.

Sonora manufactures and refurbishes its products at its facility in Longmont, Colorado. Sonora is not dependent upon any single source of supply and has no long-term supply agreements. The Company does not believe that Sonora will encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs.

Industrial Products

The Company manufactures and assembles the majority of its industrial products at its production facility located in Farmingdale, New York. The Company's products include components manufactured by other companies in the United States. The Company believes that it will not encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs. The Company is not dependent upon any single source of supply and has no long-term supply agreements.

Labcaire manufactures and assembles its products at its facility located in North Somerset, England. The Company does not believe that Labcaire will encounter difficulty in obtaining materials, supplies and components adequate for its anticipated short-term needs. Labcaire is not dependent upon any single source of supply and has no long-term supply agreements.

COMPETITION

Medical Devices

Competition in the medical and medical device industry is rigorous with many companies having significant capital resources, large research laboratories and extensive distribution systems in excess of the Company's. Some of the Company's major competitors for our medical products are Johnson & Johnson, Inc., Luminis, Inc. and Surgical Medical Technologies, Inc.

Industrial Products

Competitors in the ultrasonic industry for industrial products range from large corporations with greater production and marketing capabilities to smaller firms specializing in single products. The Company believes that its significant competitors in the manufacturing and distribution of industrial ultrasonic devices are Branson Ultrasonics, a division of Emerson Electric Co., and Sonics & Materials, Inc. It is possible that other companies in the industry are currently developing products with the same capabilities as those of the Company. The Company believes that the features of its Sonicator and the Company's customer assistance in connection with particular applications give the Sonicator a competitive advantage over comparable products.

Competitors in the air pollution abatement industry range from large,

multi-national corporations with greater production and marketing capabilities whose financial resources are substantially greater and, in many cases, whose share of the air pollution abatement market is significant as well as small firms specializing in single products. The Company believes that its principal competitors in the manufacturing and distribution of scrubbers are Ceilcote, a division of ITEQ, Inc., and Duall Division, a division of Met-Pro Corporation. The principal competitors for the ductless fume enclosure are Captair, Inc., Astec/Air Science Technologies, and Air Cleaning Systems, Inc. The Company believes that specific advantages of its scrubbers include efficiency, price and customer assistance and that specific advantages of its fume enclosures include efficiency and other product features, such as durability and ease of operation.

REGULATORY REQUIREMENTS

The Company's medical device products are subject to the regulatory requirements of the Food and Drug Administration ("FDA"). A medical device as defined by the FDA is a an instrument, apparatus implement, machine, contrivance, implant, in vitro reagent, or other similar or related article, including a components, part, or accessory, which is recognized in the official National Formulary, or the United States Pharmacopoeia, or any supplement to them, intended for use in the diagnosis of disease or other conditions, or in the cure, mitigation, treatment, or prevention of disease, in man or other animals, or intended to affect the structure or any function of the body of man or other animals, and which does not achieve any of its primary intended purposes through chemical action within or on the body of man or

other animals and which is not dependent upon being metabolized for the achievement of any of its primary intended purposes. All current devices manufactured and sold by the Company have all the necessary regulatory approvals. The Company's products that are subject to FDA regulations for product labeling and promotion comply with all applicable regulations. The Company is listed with the FDA as a Medical Device Manufacturer and has the appropriate Establishment Numbers in place. The Company has post-market monitoring system in place such as Complaint Handling and Medical Device Reporting procedures. The Company is not aware of any situations which would be adverse at this time nor has the FDA sought legal remedies available against or have there been any violations of its regulations alleged against the Company.

PATENTS, TRADEMARKS, TRADE SECRETS AND LICENSES

Pursuant to a royalty free license agreement with an unaffiliated third party, the Company has the right to use the trademark "Sonicator" in the United States. The Company also owns trademark registrations for Mystaire in both England and Germany.

The following is a list of the U.S. patents which have been issued to the Company:

Number	Description	Issue Date	Expiration Date
4,920,954	Cavitation Device - relating to the Alliger System for applying ultrasonic arteries using a	05/01/1990	08/05/2008

	generator, transducer and titanium wire.		
5,026,167	Fluid Processing - relating to the Company's environmental control product line for introducing ozone and liquid into the cavitation zone for an ultrasonic probe.	06/25/1991	10/19/2009
5,032,027	Fluid processing - relating to the Company's environmental control product line for the intimate mixing of ozone and contaminated water for the purpose of purification.	07/16/1991	10/19/2009
5,248,296	Wire with sheath - relating to the Company's Alliger System for reducing transverse motion in its catheters.	09/23/1993	12/24/2010
5,306,261	Guidewire guides - relating to the Company's Alliger System for a catheter with collapsible wire guide.	04/26/1994	01/22/2013

5,443,456	Guidewire guides - relating to the Company's Alliger System for a catheter with collapsible wire guide.	08/22/1995	02/10/2014
5,371,429*	Flow-thru transducer - relating to the Company's liposuction system and its ultrasonic industrial products for an electromechanical transducer device.	12/06/1994	09/28/2013
5,397,293	Catheter sheath -relating to the Company's Alliger System for an ultrasonic device with sheath and transverse motion damping.	03/14/1995	11/25/2012
5,419,761*	Liposuction - relating to the Company's liposuction apparatus and associated method.	05/30/1995	08/03/2013
5,465,468	Flow-thru transducer - relating to the method of making an electromechanical transducer device to be used in conjunction with the soft tissue aspiration system and the Company's ultrasonic industrial products.	11/14/1995	12/06/2014
5,516,043	Atomizer horn - relating to an ultrasonic atomizing device, which is used in the Company's industrial products.	05/14/1996	06/30/2014
5,527,273*	Ultrasonic probes - relating to an ultrasonic lipectomy probe to be used with the soft tissue aspiration technology.	06/18/1996	10/6/2014

Number	Description	Issue Date	Expiration Date
5,769,211	Autoclavable switch - relating to a medical handpiece with autoclavable rotary switch to be used in medical procedures.	06/23/1998	01/21/2017

5,072,426	Shock wave hydrophone with self-monitoring feature.	12/10/1991	02/08/2011
4,660,573	Ultrasonic lithotriptor probe.	04/28/1987	05/08/2005
4,741,731	Vented ultrasonic transducer for surgical handpiece.	05/03/1988	02/14/2006
5,151,083	Apparatus for eliminating air bubbles in an ultrasonic surgical device.	09/29/1992	07/29/2011
5,151,084	Ultrasonic needle with sleeve that includes a baffle.	09/29/1992	07/29/2011
5,486,162	Bubble control device for an ultrasonic surgical probe.	01/23/1996	01/11/2015
5,562,609	Ultrasonic surgical probe.	10/08/1996	10/07/2014

5,562,610	Needle for ultrasonic surgical probe.	10/08/1996	10/07/2014
5,904,669	Magnetic ball valves and control module.	05/18/1999	10/25/2016
6,033,375	Ultrasonic probe with isolated and teflon coated outer cannula.	03/07/2000	12/23/2017
6,270,471	Ultrasonic probe with isolated outer cannula.	08/07/2001	12/23/2017
6,443,969	Ultrasonic blade with cooling.	09/03/2002	08/15/2020
6,379,371	Ultrasonic blade with cooling.	04/30/2002	11/15/2019
6,375,648	Infiltration cannula with teflon coated outer surface.	04/23/2002	10/02/2018
6,326,039	Skinless sausage or frankfurter manufacturing method and apparatus utilizing reusable deformable support.	12/04/2001	10/31/2020
6,322,832	Manufacturing method and apparatus utilizing reusable deformable support.	11/27/2001	10/31/2020
6,146,674	Method and device for manufacturing hot dogs using high power ultrasound.	11/14/2000	5/27/2019
6,063,050	Ultrasonic dissection and coagulation system.	05/16/2000	10/16/2017
6,036,667	Ultrasonic dissection and coagulation system.	03/14/2000	08/14/2017

* Patents valid also in Japan, Europe and Canada.

The following is a list of the U.S. trademarks which have been issued to the

Company:

Registration. Number	Registration Date	Mark	Goods
1,195,124	05/11/1982	Mystaire	Scubbers Employing Fine Sprays Passing Through Mesh for Eliminating Fumes and Odors from Gases.
1,219,008	12/07/1982	Sonimist	Ultrasonic and Sonic Spray Nozzle for Vaporizing Fluid for Commercial, Industrial and Laboratory Use.
1,200,359	07/06/1982	Water Web	Lamination of Screens to provide mesh to be inserted in fluid stream for mixing or filtering of fluids.
2,051,093	04/08/1997	Misonix	Anti-Pollution Wet Scrubbers; Ultrasonic Cleaners; Spray Nozzles for Ultrasonic Cleaners.
2,051,092	04/08/1997	Misonix	Ultrasonic Liquid Processors; Ultrasonic Biological Cell Disrupters; Ultrasonic Cleaner

2,320,805	02/22/2000	Aura	Ductless Fume Enclosures.

BACKLOG

As of June 30, 2002, the Company's backlog (firm orders that have not yet been shipped) was $5,100,000, as compared to approximately $7,200,000 as of June 30, 2001. The Company's backlog relating to industrial products, including Labcaire, was approximately $2,300,000 at June 30, 2002, as compared to $2,900,000 as of June 30, 2001. The Company's backlog relating to medical devices, including Sonora, was approximately $2,800,000 at June 30, 2002, as compared to approximately $4,300,000 at June 30, 2001.

EMPLOYEES

As of September 15, 2002, the Company, including Labcaire and Sonora, employed a total of 191 full-time employees, including 26 in management and supervisory positions. The Company considers its relationship with its employees to be good.

BUSINESS SEGMENTS

The following table provides a breakdown of net sales by business segment for the periods indicated:

	Fiscal year ended June 30, (in thousands)		
	2002	2001	2000

Medical devices	$11,696	$13,023	$11,582
Industrial products	17,894	17,735	17,461
Net sales	$29,590	$30,758	$29,043

The following table provides a breakdown of foreign sales by geographic area during the periods indicated:

	Fiscal year ended June 30, (in thousands)		
	2002	2001	2000
Canada and Mexico	$ 244	$ 165	$ 2,772
United Kingdom	7,526	5,646	5,384
Europe	981	966	1,346
Asia	891	772	653
Middle East	146	139	334
Other	530	201	231
	$10,318	$ 7,889	$10,720

ITEM 2. PROPERTIES.

The Company occupies approximately 45,500 square feet at 1938 New Highway, Farmingdale, New York under a lease expiring on June 30, 2005. The Company has the right to extend the lease to June 30, 2010. The rental amount, which is approximately $35,000 per month and includes a pro rata share of real estate taxes, water and sewer charges, and other charges which are assessed on the leased premises or the land upon which the leased premises are situated. Labcaire owns a 20,000 square foot facility in North Somerset, England, which was purchased in fiscal 1999, for which there is a mortgage loan. Sonora occupies approximately 14,000 square feet in Longmont, Colorado under a lease expiring in July 2005. The rental amount is approximately $17,000 per month and includes a pro rata share of real estate taxes, water and sewer charges, and other charges which are assessed on the leased premises or the land upon which the leased premises are situated. The Company believes that the leased facilities are adequate for its present needs.

ITEM 3. LEGAL PROCEEDINGS.

The Company, MDA and MDA's wholly-owned subsidiary, LySonix, were defendants in an action alleging patent infringement filed by Mentor. On June 10, 1999, the United States District Court, Central District of California, found for the

defendants that there was no infringement upon Mentor's patent. Mentor subsequently filed an appeal. The issue concerned whether Mentor's patent is enforceable against the Company and does not govern whether the Company's patent in reference is invalid. On April 11, 2001, the United States Court of Appeals for the Federal Circuit Court issued a decision reversing in large part the decision of the trial court and granting the motion by Mentor against MDA, LySonix and the Company for violation of Mentor's U.S. Patent No. 4,886,491. This patent covers Mentor's license for ultrasonic assisted liposuction. Damages were asserted in favor of Mentor for approximately $4,900,000 and $688,000 for interest. The Court also granted a permanent injunction enjoining further sales of the LySonix 2000 in the United States for the use of lyposuction. The Court affirmed that the lower court did not have the ability to increase damages or award attorneys' fees. Each defendant is jointly and severally liable as each defendant infringed proportionally. Mentor requested further relief in the trial court for additional damages. Accordingly, the Company accrued an aggregate of $6,176,000 for damages, interest and other costs during fiscal year 2001.

On April 24, 2002, the Company resolved all issues related to the lawsuit brought by Mentor. Under the terms of the settlement, the Company paid Mentor $2,700,000 for its share of a combined $5,600,000 settlement with Mentor in exchange for a complete release from any monetary liability in connection with the lawsuit and judgment. In connection with this litigation settlement, the Company paid $1,000,000 and forgave accounts receivable of $455,500 in exchange for certain assets from MDA/LySonix, which the Company expects to utilize in the future. The net realizable value of those assets was $295,751. In addition, the Company paid $228,960 of other accrued costs during fiscal 2002. The Company will pay the remaining accrued costs of $174,332 in fiscal 2003. Accordingly, the Company recorded a reversal of the litigation settlement during the fourth quarter of fiscal 2002 of $1,912,959.

The Company's revenues derived from sales of the LySonix 2000 instruments and accessories were approximately $97,000, $66,000 and $948,000 during its fiscal year ended June 30, 2002, 2001 and 2000, respectively, comprising approximately ..003%, .002% and 3.3%, respectively, of gross revenues.

In June 2002, the Company entered into a ten-year worldwide distribution agreement with Mentor for the sale and distribution of the Lysonix 2000 soft tissue aspirator used for cosmetic surgery. This agreement is a standard agreement for such distribution in that it specifies the product to be distributed, the terms of the agreement and the price to be paid for product covered under the agreement. The agreement also was not conditional upon execution of the court settlement.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the Company's security holders during the last quarter of the fiscal year ended June 30, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) The Company's common stock, $.01 par value ("Common Stock"), is listed on the NASDAQ National Market ("NMS") under the symbol "MSON".

The following table sets forth the high and low bid prices for the Common Stock during the periods indicated as reported by the NMS. The prices reported reflect inter-dealer quotations, may not represent actual transactions, and do not include retail mark-ups, mark-downs or commissions.

Fiscal 2002:	High	Low
First Quarter	$ 7.57	$5.71
Second Quarter.	9.98	5.84
Third Quarter	9.89	6.30
Fourth Quarter.	8.82	6.00

Fiscal 2001:	High	Low
First Quarter	$10.00	$6.38
Second Quarter.	9.12	4.59
Third Quarter	9.00	6.94
Fourth Quarter.	7.50	5.45

(b) As of September 16, 2002, the Company had 6,105,865 shares of Common Stock outstanding and 121 shareholders of record. This does not take into account shareholders whose shares are held in "street name" by brokerage houses.

(c) The Company has not paid any dividends since its inception. The Company currently does not intend to pay any cash dividends in the foreseeable future, but intends to retain all earnings, if any, in its business operations.

ITEM 6. SELECTED FINANCIAL DATA.

Selected income statement data:

	Year Ended June 30,				
	2002	2001	2000	1999	1998
Net sales	$29,590,453	$30,757,519	$29,042,872	$24,767,163	$26,764,332
Net income (loss)	176,661	(4,492,290)	2,520,896	1,964,758	5,328,381
Net income (loss) per share-Basic	$ .03	$ (.75)	$ .42	$ .34	$ .94
Net income (loss) per share-Diluted	$ .03	$ (.75)	$ .39	$ .30	$ .81

Selected balance sheet data:

	June 30,				
	2002	2001	2000	1999	1998

Total assets	$26,964,452	$33,220,788	$31,163,622	$28,779,090	$25,328,956
Long-term debt and capital lease obligations	$ 1,050,254	$ 1,027,921	$ 1,274,738	$ 1,271,814	$ 105,230
Total stockholders' equity	$19,688,828	$19,106,818	$23,882,188	$21,542,385	$19,252,427

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

RESULTS OF OPERATION:

The following table sets forth, for the three most recent fiscal years, the percentage relationship to net sales of principal items in the Company's Consolidated Statements of Operations:

	Fiscal year ended June 30,		
	2002	2001	2000
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	60.6	51.3	54.3
Gross profit	39.4	48.7	45.7
Selling expenses	15.2	13.2	10.9
General and administrative expenses	21.9	21.2	17.5
Research and development expenses	7.1	5.9	4.7
Litigation settlement (recovery) expenses	(6.5)	20.1	-
Total operating expenses	37.7	60.4	33.1
Income (loss) from operations	1.7	(11.7)	12.6
Other income (expense)	.2	(10.9)	1.7
Income (loss) minority interest and income taxes	1.9	(22.6)	14.3
Minority interest in net income of consolidated subsidiaries	-	.1	-

Income (loss) before provision for income taxes	1.9	(22.5)	14.3
Income tax provision (benefit)	1.3	(7.9)	5.6
Net income (loss)	.6%	(14.6)%	8.7%

The following discussion and analysis provides information which the Company's management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein.

All of the Company's sales to date have been derived from the manufacture and distribution of ultrasonic medical devices, ultrasonic equipment for scientific and industrial purposes, ductless fume

enclosures for filtration of gaseous emissions in laboratories and environmental control equipment for the abatement of air pollution.

Fiscal years ended June 30, 2002 and 2001

Net sales. Net sales of the Company's medical devices and industrial products decreased $1,167,066 to $29,590,453 in fiscal 2002 from $30,757,519 in fiscal 2001. This difference in net sales is due to an increase in industrial products of $159,714 to $17,894,692 in fiscal 2002 from $17,734,978 in fiscal 2001. This increase is offset by lower medical device sales of $1,326,780 to $11,695,761 for the year ended June 30, 2002 from $13,022,541 for the year ended June 30, 2001. The increase in industrial products is predominantly due to an increase in fume enclosure sales of $566,272 and Labcaire sales of $2,116,323 offset by lower wet scrubber sales of $2,253,747 and ultrasonic sales of $269,134. The increase in fume enclosure sales is due to customer demand. The increase in Labcaire sales is due to the new Guardian product introduced in fiscal 2002. The decrease in wet scrubber sales is due to the decrease in growth of the semi-conductor market. The decrease in medical devices is due to decreased sales of therapeutic medical devices of $2,828,318 offset by an increase in sales of diagnostic medical devices of $1,501,538, both driven by customer demand.

The Company's revenues are generated from various geographic regions. The following is an analysis of net sales by geographic region for the year ending June 30:

	2002	2001
United States	$19,272,670	$22,868,093
Canada	230,567	162,526
Mexico	13,000	2,000

United Kingdom	7,526,478	5,646,655
Europe	980,633	966,349
Asia	890,621	771,805
Middle East	146,387	138,898
Other	530,097	201,193
	$29,590,453	$30,757,519

Summarized financial information for each of the segments for the years ended June 30, 2002 and 2001 is as follows:

For the year ended June 30, 2002:

	MEDICAL DEVICES	INDUSTRIAL PRODUCTS	(a) CORPORATE AND UNALLOCATED	TOTAL
Net sales	$ 11,695,761	$17,894,692	$ -	$ 29,590,453
Cost of goods sold	7,233,535	10,698,339	-	17,931,874
Gross profit	4,462,226	7,196,353	-	11,658,579
Selling expenses	1,218,583	3,283,590	-	4,502,173
Research and development	1,554,438	549,263	-	2,103,701
Total operating expenses	2,773,021	3,832,853	4,556,745	11,162,619
Income from operations	$ 1,689,205	$ 3,363,500	$ (4,556,745)	$ 495,960

For the year ended June 30, 2001:

	MEDICAL DEVICES	INDUSTRIAL PRODUCTS	(a) CORPORATE AND UNALLOCATED	TOTAL
Net sales	$ 13,022,541	$17,734,978	$ -	$ 30,757,519
Cost of goods sold	6,632,524	9,150,216	-	15,782,740
Gross profit	6,390,017	8,584,762	-	14,974,779
Selling expenses	842,805	3,227,320	-	4,070,125
Research and development	1,143,391	683,213	-	1,826,604
Total operating expenses	1,986,196	3,910,533	12,687,402	18,584,131
Income (loss) from operations	$ 4,403,821	$ 4,674,229	$ (12,687,402)	$ (3,609,352)

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

Net sales for the three month period ended June 30, 2002 were $7,893,175 compared to $8,945,114 for the same period in fiscal 2001. This decrease for the quarter ended June 30, 2002 is due to a decrease in industrial products sales of $603,660 and medical devices of $448,279. The decrease in industrial products sales consist of a decrease in wet scrubber sales of $805,762, a decrease in fume enclosure product sales of $286,845, and a decrease in ultrasonic sales of $234,123 offset by an increase in Labcaire sales of $723,070. The decrease in medical devices is due to decreased sales of therapeutic medical devices of $1,339,239 offset by an increase in diagnostic medical devices of $890,960.

Export sales from the United States are remitted in US Dollars and export sales for Labcaire are remitted in British Pounds. During fiscal 2002 and fiscal 2001, the Company had foreign net sales of $10,317,783 and $7,889,426, respectively, representing 34.9% and 25.5% of net sales for such years, respectively. The increase in foreign sales in fiscal 2002 as compared to fiscal 2001 is substantially due to an increase in Labcaire sales of $2,116,323. Labcaire represented 85% of foreign net sales during fiscal 2002 and fiscal 2001, respectively. 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 1.44 and 1.43 for the fiscal year ended June 30, 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.

Gross profit. Gross profit decreased to 39.4% in fiscal 2002 from 48.7% in
---

fiscal 2001. Gross profit decreased to 26.6% of sales in the three months ended June 30, 2002 from 39.7% of sales in the three months ended June 30, 2001. The decrease in gross profit is predominantly due to the unfavorable mix of high and low margin product deliveries caused by the following: gross profit was negatively impacted by the unfavorable order mix for sales of therapeutic medical devices; Mystaire scrubber sales had a significant decrease in gross margin on all of its products, predominately due to reduced volume; and increased sales of diagnostic medical devices and sales by Labcaire, which traditionally carry lower gross margins. The Company manufactures and sell both medical devices and industrial products with wide range of product costs and gross margin dollars as a percentage of revenues. An unfavorable mix of high and low gross margin product deliveries is a direct result of the ratio of high gross margin product shipments to total shipments versus low gross margin product shipments to the same total shipments. In both the medical devices and industrial products segments, there are wide variations on gross margin percentages to revenues dependent upon the product. The variation in gross margin percentage based upon product mix is described as either a "favorable" or "unfavorable" mix of high and low margin product deliveries.

Selling expenses. Selling expenses increased $432,048 or 10.6% from $4,070,125

(13.2% of sales) in fiscal 2001 to $4,502,173 (15.2% of sales) in fiscal 2002. Medical device selling expenses increased $375,778 predominantly due to additional sales and marketing efforts of diagnostic medical devices. Industrial selling expenses increased $56,270 predominantly due to increased marketing

efforts, advertising initiatives and personnel additions. Selling expenses increased $114,439 or 9.8% from $1,165,959 (13% of sales) in the three months ended June 30, 2001 to $1,280,398 (16.2% of sales) in the three months ended June 30, 2002. Medical device selling expenses increased $184,039 predominantly due to additional sales and marketing efforts of diagnostic medical devices. Industrial

selling expenses decreased $69,600 predominantly due to decreased sales commissions for the wet scrubber products.

General and administrative expenses. General and administrative expenses
---

decreased $41,698 or .6% to $6,469,704 in fiscal 2002 from $6,511,402 in the fiscal 2001. The decrease is predominantly due to increased accounting and legal fees and facility and administration costs in Longmont, Colorado, offset by lower bonus and salary expense and due to the adoption in the first quarter of fiscal 2002 of FASB Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). In accordance with SFAS 142, the Company is no longer amortizing goodwill. Amortization of goodwill for the comparable period in fiscal 2001 was $525,567. General and administrative expenses decreased $19,969 or 1% from $1,932,723 in the three months ended June 30, 2001 to $1,912,755 in the three months ended June 30, 2002. The decrease is predominantly due to increased administration costs in Longmont, Colorado, offset by lower bonus and salary expense and due to the adoption in the first quarter of fiscal 2002 of FASB Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). In accordance with SFAS 142, the Company is no longer amortizing goodwill. Amortization of goodwill for the comparable period in fiscal 2001 was $232,408.

Research and development expenses. Research and development expenses increased
---

$277,097 or 15.2% from $1,826,604 in fiscal 2001 to $2,103,701 in fiscal 2002. The increase is due to increased research and development on medical device products in the amount of $411,047 partially offset by reduced efforts for industrial products in the amount of $133,950. Research and development expenses increased $41,808 or 9.3% from $450,588 in the three months ended June 30, 2001 to $492,396 in the three months ended June 30, 2002. The increase is due to increased research and development on medical device products in the amount of $55,613 partially offset by reduced efforts for industrial products in the amount of $13,805. The increase in research and development on medical device products is due to the new Neuroaspirator product.

Litigation settlement (recovery) expenses. The Company recorded a reversal of
---

the litigation settlement during the fourth quarter of fiscal 2002 of $1,912,959. The Company recorded a litigation settlement charge of $6,176,000 during fiscal 2001. On April 11, 2001, the United States Court of Appeals for the Federal Circuit Court issued a decision reversing in large part the decision of the trial court and granting the motion by Mentor against MDA, LySonix and the Company for violation of Mentor's U.S. Patent No. 4,886,491. This patent covers Mentor's license for ultrasonic assisted liposuction. Damages were asserted in favor of Mentor for approximately $4,900,000 and $688,000 for interest. The Court also granted a permanent injunction enjoining further sales of the LySonix 2000 in the United States for the use of lyposuction. The Court affirmed that the lower court did not have the ability to increase damages or award attorney's fees. Each defendant is jointly and severally liable as each defendant infringed proportionally. Mentor requested further relief in the trial court for additional damages. Accordingly, the Company accrued an aggregate of $6,176,000 for damages, attorneys' fees, interest and other costs during the third quarter and fourth quarter of fiscal year 2001. On April 24,

2002, the Company resolved all issues related to the lawsuit brought by Mentor. Under the terms of the settlement, the Company paid Mentor $2,700,000 for its share of a combined $5,600,000 settlement with Mentor in exchange for a complete release from any monetary liability in connection with the lawsuit and judgment. In connection with this litigation settlement, the Company paid $1,000,000 and forgave accounts receivable of $455,500 in exchange for certain assets from MDA/LySonix, which the Company expects to utilize in the future. The net realizable value of those assets was $295,751. In addition, the Company paid $228,960 of other accrued costs during fiscal 2002. The Company will pay the remaining accrued costs of $174,332 in fiscal 2003. Accordingly, the Company recorded a reversal of the litigation settlement during the fourth quarter of fiscal 2002 of $1,912,959.

In June 2002, the Company entered into a ten-year worldwide distribution agreement with Mentor for the sale and distribution of the Lysonix 2000 soft tissue aspirator used for cosmetic surgery. This agreement is a standard agreement for such distribution in that it specifies the product to be distributed, the terms of the agreement and the price to be paid for product covered under the agreement. The agreement also was not conditional upon execution of the court settlement.

Other income (expense). Other income was $47,317 in fiscal 2002 as compared to other expense of $3,337,631 in fiscal 2001. Other income was $36,402 in the three months ended June 30, 2002 as compared to other expense of $3,744,955 in the three months ended June 30, 2001. This increase was

principally due to the following: an increase in royalty income; a decrease in interest income due to less cash and investments; the prior year included the write-down of investments in Focus and Hearing Innovations and of related notes of $3,822,428 for fiscal year 2001 as compared to $952,897 for fiscal year 2002. The Company is no longer amortizing the investments or recording the equity in loss for its investments in Focus and Hearing Innovations for the fiscal year 2002 since the investments were written down to zero at June 30, 2001, accordingly amortization of the investments for the comparable period in fiscal 2001 was $230,900 and the equity in loss on the investments was $365,259. During fiscal 2002, the Company entered into fifteen loan agreements whereby Hearing Innovations was required to pay the Company an aggregate amount of $322,679 due May 30, 2002, extended to November 30, 2003, and $151,230 due November 30, 2003, which the Company recorded an allowance against the entire balance of $473,909 and accrued interest of $16,230 for the above loans. During fiscal 2002, the Company purchased a second $300,000, 6% Secured Cumulative Convertible Debenture from Focus, due May 25, 2003 (the "Focus Debenture"), which the Company recorded an allowance against the entire balance of $300,000 and accrued interest of $16,500 for the above loans.

The Company entered into a loan agreement whereby Focus borrowed $60,000 from the Company which the Company recorded an allowance against the entire balance of $60,000 and accrued interest of $900 for the above loans. In addition to the current loans, included in other income and expense was accrued interest of $33,300 due from Focus Surgery and $52,058 due from Hearing Innovations for loans and debentures issued in prior years.

Income taxes. The effective tax rate is 68.5% for the fiscal year ended June 30, 2002 as compared to an effective tax rate of 35.0% for the fiscal year ended June 30, 2001. The current effective tax rate of 68.5% was impacted by no corresponding income tax benefit from the loss of the impairment of Hearing Innovations and Focus Surgery by $333,406 plus the standard consolidated tax

rate of approximately 35%. The loss on impairment of investments is recorded with no corresponding tax benefit since these transactions are capital losses. The benefit for such losses are only utilized to the extent the Company has the ability to generate capital gains.

Fiscal years ended June 30, 2001 and 2000

Net sales. Net sales increased by 5.9% between the fiscal year ended June 30, 2000 and the fiscal year ended June 30, 2001 from $29,042,872 to $30,757,519. This increase in net sales is due to the increase in sales of medical devices and industrial products. The increase in medical devices of 12.4% is due to the inclusion of twelve months of revenues of Sonora of $1,968,527, soft tissue aspirator and lithotriptor sales of $771,242 from the acquisition of Fibra Sonics offset by $1,299,388 of lower medical devices sales due to much lower sales of the LySonix 2000 as a result of the litigation settlement described in Item 3. Legal Proceedings. Industrial products increased $274,266 predominately due to lower Labcaire fume enclosure sales of $380,015, due to the weakening of the English Pound which represents approximately $780,784 of the decrease in Labcaire fume enclosure product sales due to the translation of pounds to dollars. This decrease is offset by an increase in wet scrubber (Mystaire) sales of $721,006. Revenues for the three month period ended June 30, 2001 were $8,945,114 compared to $8,455,546 for the same period in fiscal 2000. This increase for the quarter ended June 30, 2001 is due to an increase in industrial products sales of $766,829, which primarily consist of an increase in fume enclosure product sales of $529,903 and an increase in wet scrubber (Mystaire) sales of $346,648.

Export sales from the United States are remitted in US Dollars and export sales for Labcaire are remitted in British Pounds. During fiscal 2001 and fiscal 2000, the Company had foreign net sales of $7,889,426 and $10,719,509, respectively, representing 25.5% and 36.9% of net sales for such years, respectively. The decrease in foreign sales in fiscal 2001 as compared to fiscal 2000 is due to a major Mystaire shipment of products to Canada, not typically a product that we export, in fiscal 2000. Additionally, foreign currency exchange rates had an adverse effect of $780,784 on Labcaire's revenues of $6,697,807 in fiscal year 2001 as compared to fiscal year 2000.

Gross profit. There was a increase in overall gross profit margin to 48.7% in fiscal 2001 from 45.7% in fiscal 2000. Gross profit decreased to 39.7% of sales in the three months ended June 30, 2001 from 43.6% of sales in the three months ended June 30, 2000. The increase for the year ended June 30, 2001 is due to increased operating efficiencies at Misonix and Sonora and opportunities in industrial sales to capture higher prices. The decrease for the quarter ended June 30, 2001 is due to less operating

efficiency by the incorporation of the Fibra Sonics purchase into the Company's New York facility and a higher mix of industrial sales than medical devices sales, which traditionally have lower gross margins than medical devices sales.

Selling expenses. Selling expenses increased $906,436 or 28.7% from $3,163,689 (10.9% of sales) in fiscal 2000 to $4,070,125 (13.2% of sales) in fiscal 2001. Medical device selling expenses increased $605,180 primarily due to the inclusion of a full year of Sonora's operations of $400,805 and increased sales and marketing efforts in all medical devices of $167,001, such as hiring of additional salesman. Industrial product selling expenses increased $301,256 due

to increased sales and marketing efforts in all industrial products, such as hiring of additional salesman and increased advertising. Selling expenses increased $284,023 or 32.2% from $881,936 (10.4% of sales) in the three months ended June 30, 2000 to $1,165,959 (13% of sales) in the three months ended June 30, 2001, primarily due to increased sales and marketing efforts in medical devices and industrial products, such as hiring of additional salesman.

General and administrative expenses. General and administrative expenses
---

increased $1,081,099 or 19.8% from $5,464,001 in the fiscal 2000 to $6,545,100 in fiscal 2001. The increase is primarily due to the inclusion of a full year of the consolidated results of Sonora of $343,636, increased expenditures for investor relations activities of approximately $125,000, amortization of Sonora, Labcaire, Sonic Technologies and Fibra Sonics goodwill of approximately $404,000 and expenses relating to the maintenance of the Fibra Sonics facility located in Chicago during the transition to the Company's Farmingdale facility of approximately $199,000. General and administrative expenses increased $286,513 or 17% from $1,686,638 in the three months ended June 30, 2000 to $1,973,151 in the three months ended June 30, 2001. The increase is primarily due to the amortization of Sonora, Labcaire, Sonic Technologies and Fibra Sonics goodwill of approximately $175,000 and expenses relating to the maintenance of the Fibra Sonics facility located in Chicago during the transition to the Company's Farmingdale facility of approximately $75,000.

Research and development expenses. Research and development expenses increased
---

$453,841 or 33% from $1,372,763 in fiscal 2000 to $1,826,604 in fiscal 2001. The increase is primarily due to medical devices due to the inclusion of a full year of the consolidated results of Sonora of $288,835 and increased development costs associated with certain medical products of $107,095. The remaining increase of $57,911 is due to an increase in development costs associated with the Sonicator 3000 and new ductless fume enclosure which will be available for sale in fiscal 2002. Research and development expenses increased $149,589 or 49.7% from $300,999 in the three months ended June 30, 2000 to $450,588 in the three months ended June 30, 2001. The increase is primarily related to the Sonora subsidiary and relate to development costs associated with certain medical devices.

Bad debt (recovery) expense. Bad debt recovery expense decreased from $366,612
---

for fiscal 2000 to $33,698 for fiscal 2001. On October 22, 1998, the Company reserved $1,700,000 against accounts receivable due and owing by MDA and its wholly owned subsidiary, LySonix, as licensees for the Misonix ultrasonic soft tissue aspirator. In December of 1998, an additional reserve was taken against all remaining receivables from MDA and LySonix totaling $369,903. On June 30, 1999, the MDA and LySonix accounts receivable of $2,069,903 was written off against the bad debt reserve, a portion of which was later recovered in fiscal 2000.

On March 30, 2000, the Company, MDA and LySonix signed a new ten-year Exclusive License Agreement (the "MDA Agreement") for the marketing of the soft tissue aspirator for aesthetic and cosmetic surgery applications. The MDA Agreement called for LySonix to purchase the soft tissue aspirators and exclusively represent the Company's products for the fragmentation and aspiration of soft tissue. The Company was paid in full for the amounts due and owing by the return of inventory by MDA and LySonix, which was in accordance with the MDA Agreement. The Company recorded the receipt of inventory at the lower of cost or market, thereby a recovery of bad debt expense of approximately $462,000 was recorded during the third quarter of fiscal 2000. As of July 1, 2001, the MDA Agreement became a non-exclusive agreement due to the failure of MDA/LySonix to meet purchase requirements and other terms of the MDA Agreement.

Litigation settlement expenses. The Company recorded a litigation settlement charge of $6,176,000 during fiscal 2001. On April 11, 2001, the United States Court of Appeals for the Federal Circuit

Court issued a decision reversing in large part the decision of the trial court and granting the motion by Mentor against MDA, LySonix and the Company for violation of Mentor's U.S. Patent No. 4,886,491. This patent covers Mentor's license for ultrasonic assisted liposuction. Damages were asserted in favor of Mentor for approximately $4,900,000 and $688,000 for interest. The Court also granted a permanent injunction enjoining further sales of the LySonix 2000 in the United States for the use of lyposuction. The Court affirmed that the lower court did not have the ability to increase damages or award attorney's fees. Each defendant is jointly and severally liable as each defendant infringed proportionally. Mentor requested further relief in the trial court for additional damages. The Company and its co-defendants are considering all alternatives including further legal measures that are available. Accordingly, the Company accrued an aggregate of $6,176,000 for damages, interest and other costs during the third quarter and fourth quarter of fiscal year 2001.

Other income (expense). Other expense was $3,337,631 in fiscal 2001 as compared to other income of $492,241 in fiscal 2000. This decrease was principally due to the write-down of the investments in capital stock of Focus Surgery and Hearing Innovations of $2,495,467, the 5.1% Focus Debenture of $308,991, the 6% Focus Debenture of $303,667, the Hearing Debenture of $316,625 and the notes receivable from Hearing Innovations of $397,678. During the fourth quarter of fiscal 2001, the Company evaluated the equity investments of Focus and Hearing Innovations with respect to the financial performance and the achievement of specific targets and goals and determined that the equity investment was impaired and therefore the Company recorded an impairment loss in the amount of $2,495,467. The 5.1% Focus Debenture, the 6% Focus Debenture, the Hearing Debenture and the notes receivable from Hearing Innovations were reserved for as the Company believes that such debentures and notes are impaired. The Company does not anticipate these instruments to be repaid by their respective maturity dates.

Income taxes. For fiscal 2001, the Company recorded a tax benefit of $2,423,129 or 35% as compared to a tax provision of $1,630,961 or 39% for fiscal year 2000. The current year tax benefits consisted of a reduction in the deferred tax valuation allowance of $1,681,502 during the first quarter of 2001 offset by an increase of the deferred tax valuation allowance of $2,030,514 in the third quarter, relating to the write-down of the equity investments and related debentures and notes.

In connection with the loss on impairment of equity investments, which included the carrying value of the investments and related notes and debentures, the Company recorded a deferred tax asset in the amount of $2,030,514. The Company recorded a full valuation allowance against the asset in accordance with the provisions of FASB statement No.109 "Accounting for Income Taxes". The valuation allowance was determined by estimating the recoverability of the deferred tax assets. In assessing the recoverability of the deferred tax asset, management considered whether it is more likely than not that some portion or all of the deferred tax asset would not be realized. Based upon the capital nature of the deferred tax asset and the Company's projections for future capital gains in which the deferred tax asset would be deductible, management did not deem it more likely than not that the asset would be recoverable at June 30, 2001.

The Company had previously recorded a reduction of the valuation allowance applied against deferred tax assets in accordance with the provisions of FASB statement No.109 "Accounting for Income Taxes" which provided a one-time income tax benefit of $1,681,502 during the first quarter of fiscal year 2001. The valuation allowance was established in fiscal year 1997 because the future tax benefit of certain below market stock option grants issued at that time could not be reasonably assured. The Company continually reviews the adequacy of the valuation allowance and recognized the income tax benefit during the quarter due to the reasonable expectation that such tax benefit will be realized due to the fiscal strength of the Company. Management believes that it will generate taxable income sufficient to realize the tax benefit associated with these future deductible temporary differences and, therefore, the Company reduced the valuation allowance during the first quarter of fiscal year 2001.

CRITICAL ACCOUNTING POLICIES:

General: 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 require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts, inventories, goodwill, property, plant and equipment and income taxes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company considers certain accounting policies related to allowance for doubtful accounts, inventories, property, plant and equipment, goodwill and income taxes to be critical policies due to the estimation process involved in each.

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 adjust if

necessary.

Goodwill: In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") Nos. 141 and 142 (SFAS 141 and 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 later that 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 was no indicators 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 and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply for 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 June 30, 2002 and June 30, 2001 was $11,854,281 and $12,002,501, respectively. In fiscal 2002 cash utilized in operations totaled $3,754,305. This was primarily due to the cash paid in connection with the settlement of litigation (see below for discussion). In fiscal 2002, cash provided by investing activities was $770,119 which consisted of redemptions of investments held to maturity offset by loans to Hearing Innovations and Focus. In fiscal 2002, cash provided by financing activities was $247,905 which represents proceeds from the exercise of stock options and proceeds from short-term borrowings offset by principal payments on capital lease obligations.

Revolving Credit Facilities

The Company secured a $5,000,000 revolving credit facility with Fleet Bank on

January 18, 2002 to cover any potential shortfalls of the Company's cash position as well as to support future working capital needs. The revolving credit facility expires January 18, 2005 and has interest rate options ranging from Libor plus 1.0% per annum to prime rate plus .25% per annum. This facility is secured by the assets of the Company. This facility contains certain financial covenants, including requiring that the Company maintain a ratio of debt to earnings before interest, depreciation, taxes and amortization of not greater than 2 to 1; that the Company maintain a working capital ratio of not less than 1.5 to 1; and that the Company maintain a tangible net worth of $14,500,000. The terms provide for the repayment of the debt in full on its maturity date. On June 30, 2002, the Company had $5,000,000 available on its line of credit.

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 and fluctuates based upon the outstanding United Kingdom and European receivables. The current facility is more flexible than the prior facility. The prior facility established a sum certain limit where the current facility has a credit limit based upon United Kingdom domestic and European receivables outstanding. The Company's needs are better served from the current facility. The agreement expires on June 28, 2003 and covers all United Kingdom and European sales.

Commitments

The Company has commitments under a revolving note payable, facility debt and capital and operating leases that will be funded from operating sources. At June 30, 2002, the Company's contractual cash obligations and commitments relating to the revolving note payable, facility debt and capital and operating leases are as follows:

COMMITMENT	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS	TOTAL
Revolving note payable	$ 730,092	-	-	-	$ 730,092
Facility debt	57,654	$ 128,173	$ 139,824	$638,736	964,387
Capital leases	219,869	144,523	31,522	-	395,914
Operating leases	613,797	1,213,487	4,315	-	1,831,599
	$1,621,412	$1,486,183	$ 175,661	$638,736	$3,921,992

Labcaire

In October 2001, under the terms of the Labcaire Agreement, the Company paid $99,531 for 9,286 shares (2.65%) of the outstanding common stock of Labcaire. This represents the fiscal 2002 buy-back portion, as defined in the Labcaire Agreement. The remaining 9,286 shares (2.7%) will be purchased by the Company for approximately $209,000 for the year ended June 30, 2003. The effective date of this transaction is expected to be in October 2002. The Company will then own 100% of Labcaire.

Hearing Innovations, Inc.

During fiscal 2002, the Company entered into fifteen loan agreements whereby Hearing Innovations was required to pay the Company an aggregate amount of

$322,679 due May 30, 2002, extended to

November 30, 2003, and $151,230 due November 30, 2003. All notes bear interest at 8% per annum and contain warrants to acquire additional shares. 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 548,329 shares of Hearing Innovations common stock, at the option of the Company, at a cost that ranges from $.01 to $2.00 per share. These warrants, which are deemed nominal in value, expire October 2005. The Company recorded an allowance against the entire balance of $473,909 and accrued interest of $16,230 for the above loans. The related expense has been included in loss on impairment of loans to affiliated entities 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.

Focus Surgery, Inc.

On July 31, 2001, the Company purchased the Focus Debenture due May 25, 2003. The Focus Debenture is convertible into 250 shares of Focus preferred stock at the option of the Company at any time up until the due date at a purchase price of $1,200 per share. The Focus Debenture also contains warrants, which are nominal in value, to purchase an additional 125 shares to be exercised at the option of the Company. Interest accrues and is payable at maturity or is convertible on the same terms as the Focus Debenture's principal amount. The Focus Debenture is secured by a lien on all of Focus' right, title, and interest in accounts receivable, inventory, property, plant and equipment and process of specified products whether now existing or arising after the date of the Focus Debenture. The Company recorded an allowance against the Focus Debenture of $300,000 and accrued interest of $16,500 since the Company does not anticipate that the Focus Debenture will be paid in accordance with the contractual terms of the loan agreement. The related expense has been included in loss on impairment of loans to affiliated entities in the accompanying consolidated statements of operations.

During fiscal 2002, the Company entered into a loan agreement whereby Focus borrowed $60,000 from the Company. This loan matured on May 30, 2002 and was extended to December 31, 2002. The loan bears interest at 6% per annum and contain warrants to acquire additional shares. These warrants are deemed nominal in value. The loan is secured by a lien on all of Focus' 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 the loan. The Company recorded an allowance against the entire balance of $60,000 and accrued interest of $900. The related expense has been included in loss on impairment of loans to affiliated entities in the accompanying consolidated statements of operations. The Company believes that this loan is impaired since the Company does not anticipate that this loan will be paid in accordance with the contractual terms of the loan agreement.

In February 2001, the Company exercised its right to start research and development for the treatment of kidney tumors utilizing HIFU technology and in September 2002, funded $50,000 to Focus which is being treated as a research and development expense in the first quarter of fiscal 2003.

Litigation Settlement

On April 24, 2002, the Company resolved all issues related to the lawsuit brought by Mentor (see Item 3. Legal Proceedings for further discussion). Under the terms of the settlement, the Company paid Mentor $2,700,000 for its share of a combined $5,600,000 settlement with Mentor in exchange for a complete release from any monetary liability in connection with the lawsuit and judgment. In connection with this litigation settlement, the Company paid $1,000,000 and forgave accounts receivable of $455,500 in exchange for certain assets from MDA/LySonix, which the Company expects to utilize in the future. The net realizable value of those assets was $295,751. In addition, the Company paid $228,960 of other accrued costs during fiscal 2002. The Company will pay the remaining accrued costs of $174,332 in fiscal 2003. Accordingly, the Company recorded a reversal of the litigation settlement during the fourth quarter of fiscal 2002 of $1,912,959.

In June 2002, the Company entered into a ten-year worldwide distribution agreement with Mentor Corporation ("Mentor") for the sale and distribution of the Lysonix 2000 soft tissue aspirator used for cosmetic surgery. This agreement is a standard agreement for such distribution in that it specifies the

product to be distributed, the terms of the agreement and the price to be paid for product covered under the agreement. The agreement also was not conditional upon execution of the court settlement.

Other

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

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

ITEM 7A. 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.

Interest Rates:
The Company's short-term investments are made up entirely of held to maturity investments, which include mostly corporate bonds with a rating of A or higher. Assuming investment levels remained the same, a one-point change in interest rates would not have a material impact on the Company's interest income. The Company does not enter into interest rate swap agreements.

Foreign Exchange Rates:
Approximately 30% of the Company's revenues in fiscal 2002 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 1.44 and 1.43 for the fiscal year ended June 30, 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The independent auditors' reports and consolidated financial statements listed in the accompanying index are filed as part of this report. See "Index to Consolidated Financial Statements" on page 41.

QUARTERLY RESULTS OF OPERATIONS

The following table presents selected financial data for each quarter of fiscal 2002, 2001 and 2000. Although unaudited, this information has been prepared on a basis consistent with the Company's audited consolidated financial statements and, in the opinion of the Company's management, reflects all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of this information in accordance with accounting principles generally accepted in the United States. Such quarterly results are not necessarily indicative of future results of operations and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto.

QUARTERLY FINANCIAL DATA:

	FISCAL 2002				
	Q1	Q2	Q3	Q4	
Net sales	$ 6,822,521	$7,503,537	$ 7,371,220	$ 7,893,175	$29,
Gross profit	3,185,172	3,325,335	3,047,968	2,100,104	11,
Operating expenses	2,976,732	3,050,663	3,362,634	1,772,590	11,
Income (loss) from operations	208,440	274,672	(314,666)	327,514	
Other income (expense)	(17,100)	101,855	(73,840)	36,402	
Minority interest in net (loss) income of consolidated subsidiaries	(12,186)	42,916	(5,099)	(8,066)	
Income tax provision (benefit)	222,209	158,823	(182,833)	185,982	
Net (loss) income	$ (43,055)	$ 260,620	$ (210,772)	$ 169,868	$
Net (loss) income per share-Basic	$ (.01)	$ .04	$ (.03)	$ .03	$
Net (loss) income per share -Diluted	$ (.01)	$ .04	$ (.03)	$ .03	$

	FISCAL 2001				
	Q1	Q2	Q3	Q4	
Net sales	$ 6,791,318	$7,616,531	$ 7,404,556	$ 8,945,114	$30,
Gross profit	3,581,398	3,969,998	3,875,441	3,547,942	14,
Operating expenses	2,708,145	2,942,237	8,658,479	4,275,270	18,
Income (loss) from operations	873,253	1,027,761	(4,783,038)	(727,328)	(3,
Other income (expense)	160,984	209,591	36,749	(3,744,955)	(3,
Minority interest in net (loss) income of consolidated subsidiaries	(4,323)	30,566	(6,037)	11,358	
Income tax (benefit) provision	(1,304,246)	506,074	(1,832,997)	208,040	(2,
Net income (loss)	$ 2,334,160	$ 761,844	$(2,919,329)	$(4,668,965)	$(4,
Net income (loss) per share-Basic	$ .39	$ .13	$ (.48)	$ (.77)	$
Net income (loss) per share -Diluted	$ .36	$ .12	$ (.48)	$ (.77)	$

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

On January 22, 2002, the Board of Directors recommended and approved retaining the firm of Ernst & Young LLP to act as the Company's independent accountants for the fiscal year ended June 30, 2002. The Company previously retained the accounting firm of KPMG LLP for the fiscal year ended June 30, 2001. KPMG did not qualify, disclaim or have an adverse opinion of the Company's financial statements. The Audit Committee and the shareholders have consented to the change of accountants from KPMG, LLP to Ernst & Young LLP.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The Company currently has four Directors. Their term expires at the Annual Meeting of Shareholders. The following table contains information regarding all Directors and executive officers of the Company:

NAME	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Gary Gelman	55	Chairman of the Board of Directors	1995

Howard Alliger	75	Director	1971
Arthur Gerstenfeld	74	Director	1992
Michael McManus, Jr.	59	President and Chief Executive Officer	1998
Richard Zaremba	47	Vice President, Chief Financial Officer, Secretary and Treasurer	--
Kenneth Coviello	50	Vice President - Medical Devices	--
Dan Voic	40	Vice President of Research & Development & Engineering	--
Bernhard Berger	40	Vice President - Industrial/Scientific Products	--
Ronald Manna	48	Vice President of New Product Development & Regulatory Affairs	--
Christopher Thomas	40	Vice President of Mystaire Products	--

The following is a brief account of the business experience for the past five years of the Company's Directors and executive officers:

GARY GELMAN, the founder of American Claims Evaluation, Inc., a publicly traded company engaged in auditing hospital bills and providing vocational rehabilitational counseling, has been Chairman of the Board and a Director of that company for more than ten years. Since 1973, Mr. Gelman has also been Chief Executive Officer of American Para Professional Systems, Inc., a privately held entity, which provides nurses who perform physical examinations of applicants for life and/or health insurance for insurance companies. He received a B.A degree from Queens College. Mr. Gelman became a member of the Board of the Company in 1995 and Chairman of the Board of the Company in March 1996.

HOWARD ALLIGER founded the Company's predecessor in 1955 and the Company was a sole proprietorship until 1960. The Company name then was Heat Systems-Ultrasonics. Mr. Alliger was President of the Company until 1982 and Chairman of the Board until 1996. In 1996 Mr. Alliger stepped down as Chairman and was no longer a corporate officer. He has been awarded 23 patents and has published various papers on ultrasonic technology. For three years, ending in 1991, Mr. Alliger was the President of the Ultrasonic Industry Association. Mr. Alliger holds a B.A. degree in economics from Allegheny College and also attended Cornell University School of Engineering for four years. He has also established, and is President of, two privately held entities which are engaged in pharmaceutical research and development.

ARTHUR GERSTENFELD is currently Professor of Industrial Engineering and Professor of Management at Worcester Polytechnic Institute, Worcester, Massachusetts. Dr. Gerstenfeld received his Ph.D. and Masters degrees from Massachusetts Institute of Technology (Sloan School of Management). He has edited and authored seven books and approximately forty articles focusing on innovation and productivity. Dr. Gerstenfeld's industrial experience has been as founder, CEO, and Chairman of the Board of UFA, Inc. Dr. Gerstenfeld was associated with UFA from 1985 to 1992. The business was based upon four patents held by Mr. Gerstenfeld dealing with simulation systems for training of traffic controllers.

MICHAEL MCMANUS, JR. became President and Chief Executive Officer of the Company in November 1999. From November 1991 to March 1999, Mr. McManus was President and Chief Executive Officer of New York Bancorp, Inc. Prior to New York Bancorp, Inc., Mr. McManus held senior positions with Jamcor Pharmaceutical, Inc., Pfizer, Inc. and Revlon Corp. Mr. McManus also spent several years as an Assistant to President Reagan. Mr. McManus holds a B.A. degree in Economics from the University of Notre Dame and a J.D. from Georgetown University Law Center.

RICHARD ZAREMBA became Vice President and Chief Financial Officer in February 1999. From March 1995 to February 1999, he was the Vice President and Chief Financial Officer of Converse Information Systems, Inc., a manufacturer of digital voice recording systems. Previously, Mr. Zaremba was Vice President and Chief Financial Officer of Miltope Group, Inc., a manufacturer of electronic equipment. Mr. Zaremba is a licensed certified public accountant in the state of New York and holds BBA and MBA degrees in Accounting from Hofstra University.

KENNETH COVIELLO became Vice President of Medical Products in June 2000 and assumed the additional responsibility of Farmingdale plant operations in June 2001. Prior to joining the Company, he was Vice President-Sales and Marketing of FNC Medical Corp. Mr. Coviello was Vice President of Graham Field Health Products, Inc. from 1992 through 1998 and President of Lumex, a medical products manufacturer and a division of Lumex/Cybex, Inc. from 1986 to 1991. Mr. Coviello holds a B.S. degree in Marketing from Long Island University.

DAN VOIC became Vice President of Research and Development & Engineering in January 2002. Prior thereto, he served as Engineering Manager and Director of Engineering with the Company. Mr. Voic has approximately 14 years experience in both medical and industrial products development. Mr. Voic holds a M.S. degree in mechanical engineering from Polytechnic University "Traian Vuia" of Timisoara, Romania and a MS degree in applied mechanics from Polytechnic University of New York.

BERNHARD BERGER became Vice President of Industrial/Scientific Products in May 2001. Mr. Berger has approximately 20 years of sales and engineering experience in ultrasonic products and process control instrumentation. From 1995 through 2000, he was Sales Manager - Worldwide of the ultrasonic products division of Introltek International, an Edgewood, New York-based manufacturer of process instrumentation. Mr. Berger holds a B.S. degree in Chemistry from Adelphi University.

RONALD MANNA became Vice President of New Product Development and Regulatory Affairs of the Company in January 2002. Prior thereto, Mr. Manna served as Vice President of Research and Development & Engineering, Vice President of Operations and Director of Engineering of the Company. Mr. Manna holds a B.S. degree in mechanical engineering from Hofstra University.

CHRISTOPHER THOMAS became Vice President of Mystaire Products in January 1999. For three years prior thereto, he served as Director of Air Pollution Technology. Prior to his employment with the Company, Mr. Thomas was an account representative for the Business Imaging Systems Division of Eastman Kodak Company. Mr. Thomas holds a B.S. degree in General Science from Villanova University.

Executive officers are elected by and serve at the discretion of the board of directors.

Each non-employee Director receives an annual fee of $15,000. In addition, Mr. Gelman receives a special Chairman's fee of $15,000 per year. No stock options

were granted to any non-employee Directors during the fiscal year ending June 30, 2002. Each non-employee Director is also reimbursed for reasonable expenses incurred while traveling to attend meetings of the Board of Directors or while traveling in furtherance of the business of the Company.

COMPLIANCE WITH SECTION 16 (a) OF THE SECURITIES EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, Directors and persons who own more than 10% of a registered class of the Company's equity securities ("Reporting Persons") to file reports of ownership and changes in ownership on Forms 3, 4, and 5 with the Securities and Exchange Commission (the "SEC") and the National Association of Securities Dealers, Inc. (the "NASD"). These Reporting Persons are required by SEC regulation to

furnish the Company with copies of all Forms 3, 4 and 5 they file with the SEC and NASD. Based solely on the Company's review of the copies of the forms it has received, the Company believes that all Reporting Persons complied on a timely basis with all filing requirements applicable to them with respect to transactions during fiscal year 2002.

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth for the fiscal years indicated the compensation paid by the Company to its Chief Executive Officer and any other executive officers with annual compensation exceeding $100,000.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG TERM COMPENSATION
NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDED JUNE 30,	SALARY ($)	BONUS ($)	SECURITIES UNDERLYING OPTIONS GRANTED (#)
Michael McManus, Jr.	2002	275,000	150,000	150,000
President and Chief	2001	266,687	250,000	250,000
Executive Officer	2000	250,000	250,000	-
Richard Zaremba	2002	150,000	28,000	32,000
Vice President,	2001	135,610	33,000	30,000
Chief Financial Officer,	2000	129,096	5,000	-
Secretary and Treasurer				
Kenneth Coviello	2002	130,000	15,000	15,000
Vice President of Medical	2001	126,620	-	10,000
Products	2000	4,808	-	-
Daniel Voic	2002	97,729	10,000	6,500
Vice President of	2001	92,519	6,000	7,500
Research & Development &	2000	74,642	5,000	-
Engineering				
Bernhard Berger	2002	105,000	3,000	5,000

Vice President of	2001	15,952	-	10,000
Industrial/Scientific Products	2000	-	-	-
Ronald Manna	2002	121,072	10,000	10,000
Vice President of	2001	116,340	25,000	15,000
New Product Development & Regulatory Affairs	2000	113,808	15,000	-
Christopher Thomas	2002	100,000	30,000	17,000
Vice President of	2001	95,201	22,000	15,000
Mystaire Products	2000	87,348	10,000	-

EMPLOYMENT AGREEMENTS

In October 2000, the Company entered into an employment agreement with its President and Chief Executive Officer which expires on October 31, 2002. This agreement provides for an annual base compensation of $275,000 with a guaranteed bonus of $250,000. At the discretion of the Board of Directors, if certain objectives are achieved, Mr. McManus can earn a higher bonus if revenue and earnings targets as stipulated in his agreement are met. For fiscal year 2002, Mr. McManus elected to

receive a bonus of $100,000, which is to be paid in December 2002. During fiscal year 2001, Mr. McManus elected to receive a bonus of $150,000, which was paid in December 2001. Mr. McManus elected to receive a reduced bonus for each such year due to the Company's results. Mr. McManus receives additional benefits that are generally provided to other employees of the Company.

In conformity with the Company's policy, all of its Directors, officers and employees execute confidentiality and nondisclosure agreements upon the commencement of employment with the Company. The agreements generally provide that all inventions or discoveries by the employee related to the Company's business and all confidential information developed or made known to the employee during the term of employment shall be the exclusive property of the Company and shall not be disclosed to third parties without the prior approval of the Company. Mr. Manna has an agreement with the Company which provides for the payment of six months' severance upon his termination for any reason. Messrs. McManus and Zaremba have agreements for the payment of six months' annual base salary upon a change in control of the Company. The Company's employment agreement with Mr. McManus also contains non-competition provisions that preclude him from competing with the Company for a period of 18 months from the date of his termination of employment.

OPTION GRANTS IN LAST FISCAL YEAR

The following table contains information concerning options granted to executive officers named in the Summary Compensation Table during fiscal year ended June 30, 2002:

NAME AND PRINCIPAL POSITION	SECURITIES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE ($/SH)	EXPIRATION DATE	(a) GRANT DATE VALUE($)

Michael McManus, Jr.	150,000	48.5	6.07	10/17/2011	452,400
Richard Zaremba	32,000	10.3	6.07	10/17/2011	95,512
Kenneth Coviello	15,000	4.9	6.07	10/17/2011	45,240
Daniel Voic	6,500	2.1	6.07	10/17/2011	19,604
Bernhard Berger	5,000	3.2	6.07	10/17/2011	30,160
Ronald Manna	10,000	1.6	6.07	10/17/2011	15,080
Christopher Thomas	17,000	5.5	6.07	10/17/2011	51,272

(a) The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.86%; no dividend yields; volatility factor of the expected market price of the Common Stock of 53%, and a weighted-average expected life of the options of five years.

OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END VALUES

No options were exercised by any executive officer named in the Summary Compensation Table during the fiscal year ended June 30, 2002. The following table contains information concerning the number and value, at June 30, 2002, of unexercised options held by executive officers named in the Summary Compensation Table:

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END (#) (EXERCISABLE/UNEXERCISABLE)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END ($) (EXERCISABLE/UNEXERCISABLE)(1)
Michael McManus, Jr.	550,000/150,000	$ 468,500/$33,000
Richard Zaremba	37,500/39,500	$ 49,575/$8,315
Kenneth Coviello	10,000/15,000	$ 0/$3,300
Dan Voic	31,500/6,500	$ 15,773/$1,430
Ronald Manna	67,500/10,000	$ 69,425/$2,200
Bernhard Berger	5,000/10,000	$ 850/$1,950
Christopher Thomas	42,000/17,000	$ 51,780/$3,740