Ascena Retail Group, Inc.
Form 424B3
July 20, 2015
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Registration No. 333-204984

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

July 20, 2015

Dear ANN INC. Stockholder:

On May 17, 2015, ANN INC., which we refer to as ANN, and Ascena Retail Group, Inc., which we refer to as ascena retail group, inc. or ascena, entered into an Agreement and Plan of Merger, which we refer to as the merger agreement, that provides for the acquisition of ANN by ascena. Under the terms of the merger agreement, a subsidiary of ascena will merge with and into ANN, with ANN surviving the merger as a wholly owned subsidiary of ascena.

If the merger is completed, you will be entitled to receive for each share of ANN common stock you hold as of the completion of the merger (1) $37.34 in cash, without interest, and (2) 0.68 of a share of ascena common stock. Based on the number of shares of ANN common stock outstanding as of July 17, 2015, and the number of shares of ascena common stock outstanding as of July 17, 2015, it is expected that, immediately after completion of the merger, former ANN stockholders (not including former holders of ANN equity awards) will own approximately 16% of the outstanding shares of ascena common stock. The implied value of the stock portion of the merger consideration will fluctuate as the market price of ascena common stock fluctuates. You should obtain current stock price quotations for ascena common stock and ANN common stock before deciding how to vote with respect to the adoption of the merger agreement. The ANN common stock is traded on the New York Stock Exchange under the symbol ANN, and the ascena common stock is traded on the NASDAQ Global Select Market under the symbol ASNA.

ANN s board of directors unanimously recommends that ANN stockholders vote FOR adoption of the merger agreement and FOR the approval of the other matters to be considered at the ANN special meeting. In considering the recommendation of the board of directors of ANN, you should be aware that certain directors and executive officers of ANN will have interests in the merger that may be different from, or in addition to, the interests of ANN stockholders generally. See the section entitled Interests of ANN s Directors and Executive Officers in the Merger of the accompanying proxy statement/prospectus.

Your vote is important. The merger cannot be completed unless ANN stockholders holding at least a majority of the shares of ANN common stock outstanding as of the close of business on July 20, 2015, the record date for the special meeting, vote in favor of the adoption of the merger agreement at the special meeting. **The failure of any stockholder to vote will have the same effect as a vote against adopting the merger agreement. Accordingly, whether or not you plan to attend the ANN special meeting, you are requested to promptly vote your shares by proxy electronically via the Internet, by telephone or by sending in the appropriate paper proxy card as instructed in these materials.**

The special meeting of ANN stockholders will be held on Wednesday, August 19, 2015 at 8:00 A.M., local time, at ANN s offices at 7 Times Square, 45th Floor, New York, New York 10036.

This proxy statement/prospectus describes the special meeting of ANN, the merger, the documents relating to the merger and other related matters. **Please read carefully the entire proxy statement/prospectus, including the section entitled Risk Factors beginning on page 32 of the accompanying proxy statement/prospectus, for a discussion of the risks relating to the proposed merger, and the Annexes and documents incorporated by reference.**

Kay Krill

President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the merger or other transactions described in the attached proxy statement/prospectus or the securities to be issued pursuant to the merger under the attached proxy statement/prospectus nor have they determined if the attached proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The accompanying proxy statement/prospectus is dated July 20, 2015 and is first being mailed to ANN stockholders on or about July 20, 2015.

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Dear ANN INC. Stockholder:

You are cordially invited to attend a special meeting of ANN stockholders. The special meeting will be held on Wednesday, August 19, 2015, at 8:00 A.M., local time, at ANN s offices at 7 Times Square, 15th Floor, New York, New York 10036, to consider and vote upon the following matters:

1. a proposal to adopt the merger agreement;

2. a proposal to approve, by advisory (non-binding) vote, certain compensation arrangements for ANN s named executive officers in connection with the merger contemplated by the merger agreement; and

3. a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

The record date for the special meeting is July 20, 2015. Only holders of record of ANN common stock as of the close of business on July 20, 2015 are entitled to notice of, and to vote at, the special meeting. All stockholders of record as of that date are cordially invited to attend the special meeting in person. Approval of the proposal to adopt the merger agreement requires the affirmative vote of the holders of at least a majority of the outstanding shares of ANN common stock. The proposal to approve the merger-related executive compensation requires the affirmative vote of the holders of a majority of shares of ANN common stock present in person or represented by proxy; however, such vote is advisory (non-binding) only. The approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting requires the affirmative vote of the holders of a majority of shares of ANN common stock present in person or represented by proxy, whether or not a quorum is present.

ANN s board of directors has unanimously approved, adopted and declared advisable the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to and in the best interests of ANN and its stockholders, and unanimously recommends that ANN stockholders vote FOR adoption of the merger agreement, FOR the proposal to approve the merger-related executive compensation and FOR the proposal to adjourn the special meeting if there are insufficient votes to adopt the merger agreement at the time of the special meeting. In considering the recommendation of the board of directors of ANN, you should be aware that certain directors and executive officers of ANN will have interests in the merger that may be different from, or in addition to, the interests of ANN stockholders generally. See the section entitled Interests of ANN s Directors and Executive Officers in the Merger of the accompanying proxy statement/prospectus.

Your vote is very important, regardless of the number of shares of ANN common stock that you own. We cannot complete the merger unless ANN s stockholders adopt the merger agreement.

Even if you plan to attend the special meeting in person, ANN requests that you complete, sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying prepaid reply envelope or submit your proxy by telephone or the Internet prior to the special meeting to ensure that your shares of ANN common stock will be represented at the special meeting if you are unable to attend. If you hold your shares in street name through a bank,

brokerage firm or other nominee, you should follow the procedures provided by your bank, brokerage firm or other nominee to vote your shares. If you fail to submit a proxy or to attend the special meeting in person or do not provide your bank, brokerage firm or other nominee with instructions as to how to vote your shares, as applicable, your shares of ANN common stock will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote **AGAINST** the adoption of the merger agreement.

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WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN, AS PROMPTLY AS POSSIBLE, THE ENCLOSED PROXY CARD IN THE ACCOMPANYING PREPAID REPLY ENVELOPE, OR SUBMIT YOUR PROXY BY TELEPHONE OR THE INTERNET. IF YOU ATTEND THE SPECIAL MEETING AND VOTE IN PERSON, YOUR VOTE BY BALLOT WILL REVOKE ANY PROXY PREVIOUSLY SUBMITTED.

By Order of the Board of Directors,

Katherine H. Ramundo

Executive Vice President, General Counsel

and Secretary

Dated: July 20, 2015

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about ANN and ascena from other documents that ANN and ascena have filed with the U.S. Securities and Exchange Commission, which we refer to as the SEC, and that are contained in or incorporated by reference into this proxy statement/prospectus. For a listing of documents incorporated by reference into this proxy statement/prospectus, please see the section entitled Where You Can Find More Information of this proxy statement/prospectus. This information is available for you to review at the SEC s public reference room located at 100 F Street, N.E., Room 1580, Washington, DC 20549, and through the SEC s website at www.sec.gov.

You may request copies of this proxy statement/prospectus and any of the documents incorporated by reference into this proxy statement/prospectus, without charge, by telephone or email directed to: ascena Investor Relations at (551) 777-6895, or by e-mail at asc-ascenainvestorrelations@ascenaretail.com.

You may request copies of this proxy statement/prospectus and any of the documents incorporated by reference into this proxy statement/prospectus, without charge, by telephone or email directed to ANN Investor Relations at (212) 541-3300 ext. 3598, or by e-mail at investor_relations@anninc.com; or to D.F. King & Co., Inc., ANN s proxy solicitor, by calling toll-free at (800) 884-5882.

In order for you to receive timely delivery of the documents in advance of the special meeting of ANN stockholders to be held on Wednesday, August 19, 2015 at 8:00 A.M., local time, at ANN s offices at 7 Times Square, 5th Floor, New York, New York 10036, you must request the information no later than five business days prior to the date of the special meeting, or by Wednesday, August 12, 2015.

ABOUT THIS PROXY STATEMENT/PROSPECTUS

This document, which forms part of a registration statement on Form S-4 filed with the SEC by ascena (File No. 333-204984), constitutes a prospectus of ascena under Section 5 of the Securities Act of 1933, as amended, which we refer to as the Securities Act, with respect to the shares of common stock, par value $0.01 per share, of ascena, which we refer to as ascena common stock, to be issued to ANN stockholders pursuant to the Agreement and Plan of Merger, dated as of May 17, 2015, by and among ANN, ascena and Avian Acquisition Corp., as it may be amended from time to time, which we refer to as the merger agreement. This document also constitutes a proxy statement of ANN under Section 14(a) of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. It also constitutes a notice of meeting with respect to the special meeting, at which ANN stockholders will be asked to consider and vote upon the adoption of the merger agreement.

ascena has supplied all information contained or incorporated by reference into this proxy statement/prospectus relating to ascena and Avian Acquisition Corp., which we refer to as Merger Sub, and ANN has supplied all such information relating to ANN.

You should rely only on the information contained in or incorporated by reference into this proxy statement/prospectus. ascena and ANN have not authorized anyone to provide you with information that is different from that contained in or incorporated by reference into this proxy statement/prospectus. This proxy statement/prospectus is dated July 20, 2015, and you should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than such date. Further, you should not assume that the information incorporated by reference into this proxy statement/prospectus is accurate as of any date other than the date of the incorporated document. Neither the mailing of this proxy statement/prospectus to ANN stockholders nor the issuance by ascena of shares of its common stock pursuant to the merger agreement will create any implication to

the contrary.

This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction in which or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The following questions and answers are intended to briefly address some commonly asked questions regarding the merger, the merger agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a holder of ANN common stock. Please refer to the section entitled Summary of this proxy statement/prospectus and the more detailed information contained elsewhere in this proxy statement/prospectus, the annexes to this proxy statement/prospectus and the documents referred to in this proxy statement/prospectus, which you should read carefully and in their entirety. You may obtain the information incorporated by reference into this proxy statement/prospectus without charge by following the instructions under the section entitled Where You Can Find More Information of this proxy statement/prospectus.

Q: Why am I receiving this proxy statement/prospectus and proxy card?

A: ANN has agreed to be acquired by ascena under the terms of the merger agreement that are described in this proxy statement/prospectus. If the merger agreement is adopted by the affirmative vote of holders of a majority of shares of ANN common stock and the other conditions to closing under the merger agreement are satisfied or waived, Merger Sub will merge with and into ANN, with ANN, which we sometimes refer to as the surviving company, surviving the merger as a wholly owned subsidiary of ascena.

ANN is holding a special meeting to ask its stockholders to consider and vote upon a proposal to adopt the merger agreement. ANN stockholders are also being asked to consider and vote upon a proposal to approve, by advisory (non-binding) vote, certain compensation arrangements for ANN s named executive officers in connection with the merger, and a proposal to grant authority to proxy holders to vote to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

This proxy statement/prospectus includes important information about the merger, the merger agreement, a copy of which is attached as **Annex A** to this proxy statement/prospectus, and the special meeting. ANN stockholders should read this information carefully and in its entirety. The enclosed voting materials allow stockholders to vote their shares without attending the special meeting in person.

Q: Does my vote matter?

A: Yes. The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of holders of a majority of shares of ANN common stock. If you fail to submit a proxy or vote in person at the special meeting, or vote to abstain, or you do not provide your bank, brokerage firm or other nominee with instructions, as applicable, this will have the same effect as a vote **AGAINST** the adoption of the merger agreement. The ANN board of directors unanimously recommends that stockholders vote **FOR** the adoption of the merger agreement.

Q: What is the vote required to approve each proposal at the special meeting?

A: The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of ANN common stock. Because the affirmative vote required to adopt the merger agreement is based upon the total number of outstanding shares of ANN common stock, if you fail to submit a proxy or vote in person at the special meeting, or vote to abstain, or you do not provide your bank, brokerage firm or other nominee with instructions, as applicable, this will have the same effect as a vote **AGAINST** the adoption of the merger agreement.

The proposal to approve certain compensation arrangements for ANN s named executive officers in connection with the merger requires the affirmative vote of the holders of a majority of shares of ANN common stock present in person or represented by proxy; however, such vote is advisory (non-binding)

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only. If your shares of ANN common stock are present at the special meeting but are not voted on the proposal, or if you vote to abstain on the proposal, each will have the effect of a vote **AGAINST** the compensation proposal. If you fail to submit a proxy and fail to attend the special meeting, or if you do not instruct your bank, brokerage firm or other nominee to vote your shares of ANN common stock in favor of the proposal, your shares of ANN common stock will not be voted, but this will not have an effect on the advisory (non-binding) vote to approve the merger-related executive compensation except to the extent it results in there being insufficient shares present at the meeting to establish a quorum.

The proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting requires the affirmative vote of the holders of a majority of shares of ANN common stock present in person or represented by proxy, whether or not a quorum is present. If your shares of ANN common stock are present at the special meeting but are not voted on the proposal, or if you vote to abstain on the proposal, each will have the effect of a vote **AGAINST** adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting. If you fail to submit a proxy and fail to attend the special meeting or if your shares of ANN common stock are held through a bank, brokerage firm or other nominee and you do not instruct your bank, brokerage firm or other nominee to vote your shares of ANN common stock, your shares of ANN common stock will not be voted, but this will not have an effect on the vote to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

See the section entitled, Information About the Special Meeting Record Date and Quorum of this proxy statement/prospectus.

Q: How does the ANN board of directors recommend that I vote at the special meeting?

A: The board of directors of ANN, which we refer to as the ANN board of directors, unanimously recommends that ANN stockholders vote **FOR** the adoption of the merger agreement, **FOR** the approval, by advisory (non-binding) vote, of certain compensation arrangements for ANN s named executive officers in connection with the merger and **FOR** adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting. See the section entitled The Merger Recommendation of ANN s Board of Directors and Its Reasons for the Merger of this proxy statement/prospectus.

Q: Why did the ANN board of directors approve the merger agreement and the transactions contemplated by the merger agreement, including the merger?

A: To review the ANN board of directors reasons for approving and recommending adoption of the merger agreement and the transactions contemplated by the merger agreement, including the merger, see the section entitled The Merger Recommendation of ANN s Board of Directors and Its Reasons for the Merger of this proxy statement/prospectus.

Q: What will I receive if the merger is completed?

A: If the merger is completed, each share of ANN common stock issued and outstanding immediately prior to the completion of the merger will be converted into the right to receive $37.34 in cash and 0.68 of a share of ascena common stock. We refer to the 0.68 of a share of ascena common stock per share of ANN common stock as the exchange ratio.

Q: What is the value of the per share merger consideration?

A: The exact value of the per share merger consideration that ANN stockholders receive will depend on the price per share of ascena common stock at the time of the merger. That price will not be known at the time of the special meeting and may be less than, more than or the same as the current price or the price at the

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time of the special meeting. Based on the closing stock price of ascena common stock of $14.21 on the NASDAQ on May 15, 2015, the last trading day before public announcement of the execution of the merger agreement, the value of the per share merger consideration would be $9.66 for each share of ANN common stock. Based on the closing stock price of ascena common stock of $13.51 on the NASDAQ on July 17, 2015, the latest practicable date before the mailing of this proxy statement/prospectus, the value of the per share merger consideration would be $9.19 for each share of ANN common stock. We urge you to obtain current market quotations for shares of ascena common stock and ANN common stock.

Q: What happens if I am eligible to receive a fraction of a share of ascena common stock as part of the per share merger consideration?

A: If the aggregate number of shares of ascena common stock that you are entitled to receive as part of the per share merger consideration includes a fraction of a share of ascena common stock, you will receive cash in lieu of that fractional share. See the section entitled The Merger Agreement Effects of the Merger on Capital Stock of this proxy statement/prospectus.

Q: What will holders of ANN equity awards receive in the merger?

A: *Stock Options*. Each ANN option that is outstanding and unexercised immediately prior to the effective time of the merger, which we refer to as the effective time, whether vested or unvested, will, as of the effective time, be fully vested and converted into the right to receive the per share merger consideration in respect of each net share underlying the ANN option, after taking into account the option exercise price. For more information, see the section entitled The Merger Agreement Treatment of ANN Equity Awards of this proxy statement/prospectus.
Restricted Share Awards. At the effective time, each award of restricted shares of ANN common stock that is outstanding immediately prior to the effective time will be fully vested and converted into the right to receive the per share merger consideration in respect of each share of ANN common stock subject to such award of restricted shares of ANN common stock immediately prior to the effective time. The total number of shares of ANN common stock related to ANN restricted share awards that are subject to performance-based vesting conditions will be determined assuming performance at target level. For more information, see the section entitled The Merger Agreement Treatment of ANN Equity Awards of this proxy statement/prospectus.

Q: What will happen to ANN as a result of the merger?

A: If the merger is completed, Merger Sub will be merged with and into ANN, with ANN continuing as the surviving company and a wholly owned subsidiary of ascena. As a result of the merger, ANN will no longer be a publicly held company. Following the merger, the ANN common stock will be delisted from the NYSE and deregistered under the Exchange Act.

Q: What equity stake will ANN stockholders hold in ascena immediately following the merger?

A: Based on the number of issued and outstanding shares of ascena common stock and ANN common stock as of July 17, 2015, the latest practicable date before the mailing of this proxy statement/prospectus, holders of shares of ANN common stock (not including former holders of ANN equity awards) as of immediately prior to the closing of the merger will hold, in the aggregate, approximately 16% of the issued and outstanding shares of ascena common stock immediately following the closing of the merger.

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Q: When do you expect the merger to be completed?

A: Subject to the satisfaction or waiver of the closing conditions described under the section entitled The Merger Agreement Conditions to Completion of the Merger of this proxy statement/prospectus, including the adoption of the merger agreement by ANN stockholders at the special meeting, ascena and ANN expect that the merger will be completed during the second half of calendar year 2015. However, it is possible that factors outside the control of both companies could result in the merger being completed at a different time or not at all.

Q: What are the material U.S. federal income tax consequences of the merger to ANN stockholders?

A: If you are a U.S. holder (as such term is defined in the section entitled Material U.S. Federal Income Tax Consequences of this proxy statement/prospectus), the receipt of the merger consideration in exchange for shares of ANN common stock pursuant to the merger will generally be a taxable transaction for U.S. federal income tax purposes. You should consult your own tax advisors regarding the particular tax consequences to you of the exchange of shares of common stock for the merger consideration pursuant to the merger in light of your particular circumstances (including the application and effect of any state, local or foreign income and other tax laws). For a more detailed discussion of the material U.S. federal income tax consequences of the merger to ANN stockholders, please see the section entitled Material U.S. Federal Income Tax Consequences of this proxy statement/prospectus.

Q: Who can vote at the special meeting?

A: All holders of record of ANN common stock as of the close of business on July 20, 2015, the record date for the special meeting, which we refer to as the record date, are entitled to receive notice of, and to vote at, the special meeting. Each holder of ANN common stock is entitled to cast one vote on each matter properly brought before the special meeting for each share of ANN common stock that such holder owned of record as of the record date.

Q: When and where is the special meeting?

A: The special meeting will be held on Wednesday, August 19, 2015 at 8:00 A.M., local time, at ANN s offices at 7 Times Square, 5th floor, New York, New York 10036. Stockholders eligible to vote at the ANN special meeting, or their duly authorized proxies, may attend the ANN special meeting.

To attend the meeting, you must bring a government-issued photo identification (*e.g.,* a driver s license or passport). If you hold shares in street name (through a bank, brokerage firm or other financial nominee), you must also bring a copy of a brokerage statement (in a name matching your government-issued photo identification) reflecting your stock ownership as of the record date for the ANN special meeting. If you are a representative of a corporate or institutional stockholder, you must also bring proof that you are a representative of such a stockholder (*e.g.*, a business card).

Due to space constraints and other security considerations, we are not able to admit guests of either stockholders or their legal proxy holders. If due to a disability, you need an accommodation to attend or participate, please contact ANN s Corporate Secretary at (212) 536-4229 in advance of the meeting. Cameras and recording devices will not be

permitted in the meeting room during the meeting. For security and safety reasons, all bags will be subject to search. For questions about admission to the ANN special meeting, please contact ANN s Corporate Secretary at (212) 536-4229.

If you do not provide photo identification or comply with the procedures outlined above, you will not be admitted to the special meeting.

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Q: Should I send in my stock certificates or other evidence of ownership now?

A: No. After the merger is completed, you will receive a letter of transmittal from the exchange agent for the merger with detailed written instructions for exchanging your shares of ANN common stock for the per share merger consideration, any fractional share cash amount into which the shares have been converted and the amount of any dividends or distributions with a record date after the effective time but prior to the time of delivery by the exchange agent. If you are the beneficial owner of shares of ANN common stock held in street name, you may receive instructions from your bank, brokerage firm or other nominee as to what action, if any, you need to take to effect the surrender of such shares**. Please do not send in your stock certificates now.** More information may be found under the section entitled The Merger Agreement Exchange and Payment Procedures of this proxy statement/prospectus.

Q: When will I receive the merger consideration to which I am entitled?

A: After the merger is completed, when you properly complete and return the letter of transmittal and required documentation described in the written instructions referenced above, you will receive the per share merger consideration, any fractional share cash amount into which the shares have been converted and the amount of any dividends or distributions with a record date after the effective time but prior to the time of delivery by the exchange agent to which you are entitled in respect of your shares of ANN common stock. More information may be found under the section entitled The Merger Agreement Exchange and Payment Procedures of this proxy statement/prospectus.

Q: Will my shares of ascena common stock acquired in the merger receive a dividend?

A: After the closing of the merger, as a holder of ascena common stock, you will receive the same dividends on shares of ascena common stock that all other holders of shares of ascena common stock will receive based on a dividend record date that occurs after the merger is completed.

ascena has never declared or paid cash dividends on its common stock. However, any payment of dividends by ascena is within the discretion of and is payable when declared by ascena s board of directors. See the section entitled Comparative Per Share Market Price and Dividend Information beginning on page 28 of this proxy statement/prospectus for a comparison of the historical dividend practices of the two companies.

Q: Why am I being asked to consider and vote on a proposal to approve, by advisory (non-binding) vote, certain compensation arrangements for ANN s named executive officers in connection with the merger?

A: Under SEC rules, ANN is required to seek an advisory (non-binding) vote with respect to the compensation that may be paid or become payable to its named executive officers that is based on, or otherwise relates to, the merger.

Q: What will happen if ANN stockholders do not approve the compensation proposal?

A: Approval of the compensation that may be paid or become payable to ANN s named executive officers that is based on, or otherwise relates to, the merger is not a condition to completion of the merger. The vote is an advisory vote and will not be binding on ANN or the surviving company in the merger. If the merger is completed, the merger-related compensation may be paid to ANN s named executive officers to the extent payable in accordance with the terms of their compensation agreements and arrangements even if ANN stockholders do not approve, by advisory (non-binding) vote, the merger-related compensation.

Q: Do any of ANN s directors or executive officers have interests in the merger that may differ from those of ANN stockholders?

A: ANN s non-employee directors and executive officers have certain interests in the merger that may be different from, or in addition to, the interests of ANN stockholders generally. The ANN board of directors was aware of and considered these interests, among other matters, in evaluating the merger agreement and

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the merger, and in recommending that ANN stockholders adopt the merger agreement. For a description of these interests, refer to the section entitled Interests of ANN s Directors and Executive Officers in the Merger.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: You are a stockholder of record if your shares are registered directly in your name with ANN s transfer agent, Computershare Trust Company, N.A. As the stockholder of record, you have the right to vote in person at the special meeting. You may also vote by Internet, telephone or mail, as described in the notice and below under the heading How do I vote? . You are deemed to beneficially own shares in street name if your shares are held by a bank, brokerage firm or other nominee or other similar organization. Your bank, brokerage firm or other nominee will send you, as the beneficial owner, a package describing the procedure for voting your shares. You should follow the instructions provided by them to vote your shares. You are invited to attend the special meeting; however, you may not vote your shares in person at the special meeting unless you obtain a legal proxy from your bank, brokerage firm or other nominee that holds your shares, giving you the right to vote the shares at the special meeting.

Q: If my shares of ANN common stock are held in street name by my bank, brokerage firm or other nominee, will my bank, brokerage firm or other nominee automatically vote those shares for me?

A: Your bank, brokerage firm or other nominee will only be permitted to vote your shares of ANN common stock if you instruct your bank, brokerage firm or other nominee how to vote. You should follow the procedures provided by your bank, brokerage firm or other nominee regarding the voting of your shares of ANN common stock.

In accordance with the rules of the NYSE, banks, brokerage firms and other nominees who hold shares of ANN common stock in street name for their customers have authority to vote on routine proposals when they have not received instructions from beneficial owners. However, banks, brokerage firms and other nominees are precluded from exercising their voting discretion with respect to non-routine matters, such as the proposal to adopt the merger agreement, the proposal to approve, by advisory (non-binding) vote, the merger-related executive compensation and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting. As a result, absent specific instructions from the beneficial owner of such shares, banks, brokerage firms and other nominees are not empowered to vote such shares. A so-called broker non-vote results when banks, brokerage firms and other nominees return a valid proxy but do not vote on a particular proposal because they do not have discretionary authority to vote on the matter and have not received specific voting instructions from the beneficial owner of such shares. The effect of not instructing your broker how you wish your shares to be voted will be the same as a vote **AGAINST** the proposal to adopt the merger agreement, and will not have an effect on the proposal to approve, by advisory (non-binding) vote, the merger-related executive compensation (except to the extent there are insufficient shares present at the meeting to establish a quorum) or on the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

Q: How many votes do I have?

A: Each ANN stockholder is entitled to one vote for each share of ANN common stock held of record as of the record date. As of the close of business on the record date, there were 46,074,781 shares of ANN common stock outstanding, approximately 5.41% of which were beneficially owned by the directors and executive officers of ANN and their affiliates. As summarized above, there are some important distinctions between shares held of record and those owned beneficially in street name.

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Q: What constitutes a quorum for the special meeting?

A: The presence, in person or represented by proxy, of holders of a majority of all of the outstanding shares of ANN common stock entitled to vote at the special meeting constitutes a quorum for the purposes of the special meeting. Abstentions are considered present for purposes of establishing a quorum.

Q: How do I vote?

A: *Stockholder of Record*. If you are a stockholder of record, you can vote in the following ways:

By Internet: by following the Internet voting instructions on the proxy card at any time up until 11:59 P.M. Eastern Time on August 18, 2015;

By Telephone: by following the telephone voting instructions included in the proxy card at any time up until 11:59 P.M. Eastern Time on August 18, 2015;

By Mail: you may vote by mail by marking, dating and signing your proxy card in accordance with the instructions on it and returning it by mail in the pre-addressed reply envelope provided with the proxy materials. The proxy card must be received prior to the special meeting; or

In Person: you may attend the special meeting and cast your vote in person.

Beneficial Owner. If you are a beneficial owner, please refer to the instructions provided by your bank, brokerage firm or other nominee to see which of the above choices are available to you. Please note that if you are a beneficial owner and wish to vote in person at the special meeting, you must obtain a legal proxy from your bank, brokerage firm or other nominee.

Shares owned through ANN s Associate Discount Stock Purchase Plan and/or the 401(k) Savings Plan. If you own ANN shares through the Associate Discount Stock Purchase Plan and/or the 401(k) Savings Plan, you are entitled to vote. To do so, you must timely submit your properly completed and executed proxy with your voting instructions. The plan custodian or trustee, as the case may be, will vote in accordance with your instructions. If you own your shares through the Associate Discount Stock Purchase Plan and the custodian does not receive your voting instructions by 11:59 P.M. Eastern Time on August 17, 2015, the custodian will not vote your shares. If you own shares through the 401(k) Savings Plan and the trustee does not receive your voting instructions by 11:59 P.M. Eastern Time on August 16, 2015, the trustee will vote your shares in the same proportion as it voted shares for which it received instructions.

Q: How can I change or revoke my vote?

A: If you are a stockholder of record, you may change your vote or revoke your proxy by:

filing a written statement to that effect with ANN s corporate secretary, at or before the taking of the vote at the special meeting;

voting again via the Internet or telephone at a later time before the closing of those voting facilities at 11:59 P.M. Eastern Time on August 18, 2015;

submitting a properly signed proxy card with a later date that is received at or prior to the special meeting; or

attending the special meeting and voting in person.

The written statement or subsequent proxy should be delivered to ANN INC., 7 Times Square, New York, NY 10036, Attention: Corporate Secretary, or hand delivered to the Corporate Secretary, before the taking of the vote at the special meeting. If you are a beneficial owner and hold shares through a broker, bank or other nominee, you may submit new voting instructions by contacting your broker, bank or other nominee. You may also change your vote or revoke your voting instructions by voting in person at the special meeting if you obtain a signed proxy from your broker, bank or other nominee giving you the right to vote the shares.

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Q: If a stockholder gives a proxy, how are the shares of ANN common stock voted?

A: Regardless of the method you choose to vote, the individuals named on the enclosed proxy card will vote your shares of ANN common stock in the way that you indicate. When completing the Internet or telephone processes or the proxy card, you may specify whether your shares of ANN common stock should be voted **FOR** or **AGAINST** or to **ABSTAIN** from voting on all, some or none of the specific items of business to come before the special meeting. If you properly sign your proxy card but do not mark the boxes showing how your shares should be voted on a matter, the shares represented by your properly signed proxy will be voted **FOR** the proposal to adopt the merger agreement, **FOR** the proposal to approve, by advisory (non-binding) vote, the merger-related executive compensation, and **FOR** the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

Q: What should I do if I receive more than one set of voting materials?

A: If you hold shares of ANN common stock in street name and also directly as a record holder or otherwise or if you hold shares of ANN common stock in more than one brokerage account, you may receive more than one set of voting materials relating to the special meeting. Please complete, sign, date and return each proxy card (or cast your vote by telephone or Internet as provided on your proxy card) or otherwise follow the voting instructions provided in this proxy statement/prospectus in order to ensure that all of your shares of ANN common stock are voted. If you hold your shares in street name through a bank, brokerage firm or other nominee, you should follow the procedures provided by your bank, brokerage firm or other nominee to vote your shares.

Q: What happens if I sell my shares of ANN common stock before the special meeting?

A: The record date is earlier than both the date of the special meeting and the effective time of the merger. If you transfer your shares of ANN common stock after the record date but before the special meeting, you will, unless the transferee requests a proxy from you, retain your right to vote at the special meeting but will transfer the right to receive the per share merger consideration to the person to whom you transfer your shares. In order to receive the per share merger consideration, you must hold your shares at the effective time of the merger.

Q: Who will solicit and pay the cost of soliciting proxies?

A: ANN has engaged D.F. King & Co., Inc. at an estimated cost of $15,000, plus reimbursement of reasonable expenses, to assist in the solicitation of proxies from brokers, nominees, institutions and individuals. Proxies may also be solicited on ANN s behalf by ANN s directors, officers or employees (for no additional compensation). Arrangements will also be made with custodians, nominees and fiduciaries for forwarding a notice or printed proxy materials, as applicable, to beneficial owners of shares held of record by such custodians, nominees and fiduciaries, and ANN will reimburse such custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith.

Q: What do I need to do now?

A: Even if you plan to attend the special meeting in person, after carefully reading and considering the information contained in this proxy statement/prospectus, please vote promptly to ensure that your shares are represented at the special meeting. If you hold your shares of ANN common stock in your own name as the stockholder of record, you may submit a proxy to have your shares of ANN common stock voted at the special meeting in one of three ways:

By Internet: by following the Internet voting instructions on the proxy card at any time up until 11:59 P.M. Eastern Time on August 18, 2015;

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By Telephone: by following the telephone voting instructions included in the proxy card at any time up until 11:59 P.M. Eastern Time on August 18, 2015; or

By Mail: by marking, dating and signing your proxy card in accordance with the instructions on it and returning it by mail in the pre-addressed reply envelope provided with the proxy materials. The proxy card must be received prior to the special meeting.

If you decide to attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted. If you are a beneficial owner, please refer to the instructions provided by your bank, brokerage firm or other nominee to see which of the above choices are available to you. Please note that if you are a beneficial owner and wish to vote in person at the special meeting, you must obtain a legal proxy from your bank, brokerage firm or other nominee. If you own ANN shares through the Associate Discount Stock Purchase Plan and/or the 401(k) Savings Plan, you must timely submit your properly completed and executed proxy with your voting instructions. The plan custodian or trustee will vote in accordance with your instructions.

Q: Where can I find the voting results of the special meeting?

A: The preliminary voting results will be announced at the special meeting. In addition, within four business days following the vote at the special meeting, ANN intends to file the final voting results with the SEC on a Current Report on Form 8-K.

Q: Am I entitled to exercise appraisal rights instead of receiving the per share merger consideration for my shares of ANN common stock?

A: Stockholders are entitled to appraisal rights under Section 262 of the Delaware General Corporation Law, which we refer to as the DGCL, provided they follow the procedures and satisfy the conditions set forth in Section 262 of the DGCL. For more information regarding appraisal rights, see the section entitled Appraisal Rights of ANN Stockholders of this proxy statement/prospectus. In addition, a copy of Section 262 of the DGCL is attached as **Annex C** to this proxy statement/prospectus. Failure to strictly comply with Section 262 of the DGCL may result in your waiver of, or inability to exercise, appraisal rights.

Q: Are there any risks that I should consider in deciding whether to vote for the adoption of the merger agreement?

A: Yes. You should read and carefully consider the risk factors set forth in the section entitled Risk Factors beginning on page 32 of this proxy statement/prospectus. You also should read and carefully consider the risk factors of ascena and ANN contained in the documents that are incorporated by reference into this proxy statement/prospectus.

Q: What are the conditions to completion of the merger?

A: In addition to the approval by ANN stockholders of the proposal to adopt the merger agreement as described above, completion of the merger is subject to the satisfaction or waiver (to the extent permitted under applicable law) of a number of other conditions, including: the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act (which occurred on June 17, 2015); the effectiveness of the registration statement on Form S-4 of which this proxy statement/prospectus forms a part (and the absence of any stop order by the SEC); approval of the listing on the NASDAQ of the ascena common stock to be issued in connection with the merger; the absence of an injunction prohibiting the merger; the accuracy of representations and warranties under the merger agreement (subject to materiality standards set forth in the merger agreement); ascena s and ANN s performance of their respective obligations under the merger agreement in all material respects; and delivery of officer certificates by each party certifying satisfaction of the two preceding

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conditions. For a more complete summary of the conditions that must be satisfied or waived prior to completion of the merger, see the section entitled The Merger Agreement Conditions to Completion of the Merger of this proxy statement/prospectus.

Q: What happens if the merger is not completed?

A: If the merger agreement is not adopted by the affirmative vote of holders of a majority of shares of ANN common stock or if the merger is not completed for any other reason, ANN stockholders will not receive any consideration for their shares of ANN common stock. Instead, ANN will remain an independent public company and ANN common stock will continue to be listed and traded on the NYSE and registered under the Exchange Act. ANN is required to pay ascena a termination fee of $48,270,000 if the merger agreement is terminated in certain circumstances. If the merger agreement is terminated because the special meeting (as it may be adjourned or postponed) concludes without the ANN stockholder approval being obtained and the termination fee is not otherwise payable, ANN will reimburse ascena for its actual and reasonable out-of-pocket expenses incurred in connection with the merger agreement and the merger in an amount not to exceed $5,000,000. See the section entitled The Merger Agreement Termination of the Merger Agreement Expense Reimbursement; Termination Fee of this proxy statement/prospectus.

Q: Who can help answer any other questions I have?

A: If you have additional questions about the merger, need assistance in submitting your proxy or voting your shares of ANN common stock, or need additional copies of this proxy statement/prospectus or the enclosed proxy card, please contact D.F. King & Co., Inc., ANN s proxy solicitor, by calling toll-free at (800) 884-5882.

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SUMMARY

The following summary highlights selected information in this proxy statement/prospectus and may not contain all the information that may be important to you as an ANN stockholder. Accordingly, we encourage you to read carefully this entire proxy statement/prospectus, its annexes and the documents referred to in this proxy statement/prospectus. Each item in this summary includes a page reference directing you to a more complete description of that topic. You may obtain the information incorporated by reference into this proxy statement/prospectus without charge by following the instructions under the section entitled Where You Can Find More Information of this proxy statement/prospectus.

The Parties to the Merger (Page 45)

ANN INC.

7 Times Square

New York, New York 10036

(212) 541-3300

ANN INC., a Delaware corporation, through its wholly owned subsidiaries, is a leading national specialty retailer of women s apparel, shoes and accessories. With two strong and established lifestyle brands in Ann Taylor and LOFT and its recently launched Lou & Grey concept, ANN operated 1,034 Ann Taylor, Ann Taylor Factory, LOFT, LOFT Outlet and Lou & Grey retail stores in 47 states, the District of Columbia, Puerto Rico and Canada as of May 2, 2015. Ann Taylor and LOFT brands are also available online in more than 100 countries worldwide at AnnTaylor.com and LOFT.com or at ANN s LOFT franchise stores in Mexico.

ANN common stock is listed on the NYSE under the symbol ANN.

ascena retail group, inc.

933 MacArthur Boulevard

Mahwah, New Jersey 07430

(551) 777-6700

ascena retail group, inc., a Delaware corporation, is a leading national specialty retailer offering clothing, shoes and accessories for missy and plus-size women, through its 100% owned subsidiaries, under the **Lane Bryant**, **maurices**, **dressbarn** and **Catherines** brands and for tween girls under the **Justice** brand. ascena operates through its subsidiaries approximately 3,900 stores throughout the United States and Canada.

ascena common stock is listed on the NASDAQ under the symbol ASNA.

Avian Acquisition Corp.

c/o ascena retail group, inc.

933 MacArthur Boulevard

Mahwah, New Jersey 07430

(551) 777-6700

Avian Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of ascena, which we refer to as Merger Sub, was formed solely for the purpose of facilitating the merger. Merger Sub has not carried on any activities or operations to date, except for those activities incidental to its formation and undertaken in connection with the transactions contemplated by the merger agreement. By operation of tof the United States, the Company sells to distributors who then resell the product to hospitals. The Company operates as one business segment.

High Intensity Focused Ultrasound Technology

The Company sold its rights to the high intensity focused ultrasound technology to SonaCare Medical, LLC ("SonaCare") in May 2010. The Company may receive up to approximately $5.8 million in payment for the sale. SonaCare will pay the Company 7% of the gross revenues received from its sales of the (i) prostate product in Europe and (ii) kidney and liver products worldwide, until the Company has received payments of $3 million, and thereafter 5% of the gross revenues, up to an aggregate payment of $5.8 million, all subject to a minimum annual royalty of $250,000. Cumulative payments through December 31, 2016 were $1,254,788. No payments were received during the six months ended December 31, 2016. Payments are generally received once per year, in the Company's third fiscal quarter.

Major Customers and Concentration of Credit Risk

Included in sales from continuing operations are sales to Cicel (Beijing) Science and Tech Co. Ltd. ("Cicel") of $0 and $899,635 for the six months ended December 31, 2016 and 2015, respectively. Accounts receivable from Cicel was $0 at December 31, 2016 and June 30, 2016. The Company terminated its agreement with Cicel in the first quarter of fiscal 2017.

Total royalties from Medtronic Minimally Invasive Therapies ("MMIT") related to their sales of the Company's ultrasonic cutting products, which use high frequency sound waves to coagulate and divide tissue for both open and laparoscopic surgery, were $1,885,788 and $1,979,026, for the six months ended December 31, 2016 and 2015, respectively. Accounts receivable from MMIT royalties were approximately $1,885,788 and $973,000 at December 31, 2016 and June 30, 2016, respectively. The license agreement with MMIT expires in August 2017.

At December 31, 2016 and June 30, 2016, the Company's accounts receivable with customers outside the United States were approximately $341,000 and $768,000, respectively, none of which is over 90 days.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for but not limited to establishing the allowance for doubtful accounts, valuation of inventory, depreciation, asset impairment evaluations and establishing deferred tax assets and related valuation allowances, and stock-based compensation. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if

that reporting unit had been acquired in a business combination. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will apply this guidance to applicable impairment tests after the adoption date.

In February 2016, the FASB issued guidance on lease accounting requiring lessees to recognize a right-of-use asset and a lease liability for long-term leases. The liability will be equal to the present value of lease payments. This guidance must be applied using a modified retrospective transition approach to all annual and interim periods presented and is effective for the Company beginning in fiscal 2019. The Company is currently in the early stages of evaluating this guidance to determine the impact it will have on its financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved, in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This guidance permits the use of either the retrospective or cumulative effect transition method and is effective for the Company beginning in 2019; early adoption is permitted beginning in 2018. The Company has not yet selected a transition method and is currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures. The FASB has also issued the following additional guidance clarifying certain issues on revenue from contracts with customers: Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients and Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing. The Company is currently in the early stages of evaluating this guidance to determine the impact it will have on its financial statements.

There are no other recently issued accounting pronouncements that are expected to have a material effect on the Company's financial position, results of operations or cash flows.

2. Fair Value of Financial Instruments

We follow a three-level fair value hierarchy that prioritizes the inputs to measure fair value. This hierarchy requires entities to maximize the use of "observable inputs" and minimize the use of "unobservable inputs." The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect assumptions that market participants would use in pricing an asset or liability.

At December 31, 2016 and June 30, 2016, all of our cash, trade accounts receivable and trade accounts payable were short term in nature, and their carrying amounts approximate fair value.

3. Inventories

Inventories are summarized as follows:

	December 31, 2016	June 30, 2016
Raw material	$ 2,591,834	$3,102,175
Work-in-process	631,842	854,631
Finished goods	3,048,026	3,101,234
	6,271,702	7,058,040
Less valuation reserve	1,285,181	1,235,105
	$ 4,986,521	$5,822,935

4. Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment totaled approximately $429,000 and $638,000 for the six months ended December 31, 2016 and 2015, respectively. Inventory items included in property, plant and equipment are depreciated using the straight line method over estimated useful lives of 3 to 5 years. Depreciation of generators which are consigned to customers is expensed over a 5 year period during the six months ended December 31, 2016 and is expensed over a 3 year period for the six months ended December 31, 2015, and depreciation is charged to selling expenses. The impact of this change in accounting estimate was a reduction in expense of approximately $350,000 for the six months ended December 31, 2016, compared to what the expense would have been without this change.

5. Goodwill

Goodwill is not amortized. We review goodwill for impairment annually and whenever events or changes indicate that the carrying value of an asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of significant assets or products. Application of these impairment tests requires significant judgments, including estimation of cash flows, which is dependent on internal forecasts, estimation of the long term rate of growth for the Company’s business, the useful lives over which cash flows will occur and determination of the Company’s weighted average cost of capital. The Company primarily utilizes the Company’s market capitalization and a discontinued cash flow model in determining the fair value which consists of Level 3 inputs. Changes in the projected cash flows and discount rate estimates and assumptions underlying the valuation of goodwill could materially affect the determination of fair value at acquisition or during subsequent periods when tested for impairment. The Company completed its annual goodwill impairment tests for fiscal 2016 and 2015 as of June 30 of each year. No impairment of goodwill was deemed to exist in fiscal 2016 and 2015.

6. Patents

The costs of acquiring or processing patents are capitalized at cost. These amounts are being amortized using the straight-line method over the estimated useful lives of the underlying assets, which is approximately 17 years. Patents totaled $707,366 and $604,916 at December 31, 2016 and June 30, 2016, respectively. Amortization expense for the six months ended December 31, 2016 and 2015 was $53,000 and $47,000, respectively.

The following is a schedule of estimated future patent amortization expense as of December 31, 2016:

2017	$54,467
2018	106,767
2019	98,460
2020	75,032
2021	69,868
Thereafter	302,772
	$707,366

7. Accrued Expenses and Other Current Liabilities

The following summarizes accrued expenses and other current liabilities:

	December 31, 2016	June 30, 2016
Accrued payroll, payroll taxes and vacation	607,892	648,705
Accrued bonus	200,000	300,000
Accrued commissions	460,000	433,000
Professional fees	502,297	256,130
Deferred income	28,423	20,655
Severance	206,201	-
Other	266,170	228,847
	$ 2,270,983	$1,887,337

8. Stock-Based Compensation Plans

Stock Option Awards

The compensation cost that has been charged against income for the Company's stock option plans was $83,865, which included a charge to modify certain stock options of $81,765 and a reversal of stock compensation from prior periods due to forfeitures of unvested options of $616,239, for the six months ended December 31, 2016. For the six months ended December 31, 2015, compensation cost that has been charged against income for the Company's stock option plans was $728,993. As of December 31, 2016, there was approximately $3,158,221 of total unrecognized compensation cost related to non-vested share-based compensation arrangements to be recognized over a weighted-average period of 3.0 years. Certain share based costs for the six months ended December 31, 2015 included in general and administrative expenses were reclassified to cost of revenue, selling and research and development expenses to be consistent with the current year's classification.

During the six months ended December 31, 2016, the Company modified the terms of certain stock options, which resulted in a charge to operations of $81,765.

Stock options typically expire 10 years from the date of grant and vest over service periods, which typically are 4 years. All options are granted at fair market value, as defined in the applicable plans.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. The expected volatility represents the historical price changes of the Company's stock over a period equal to that of the expected term of the option. The Company uses the simplified method for determining the option term. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based upon historical and projected dividends. The Company has historically not paid dividends, and is not expected to do so in the near term.

The weighted average fair value at date of grant for options granted during the six months ended December 31, 2016 and 2015 was $4.46 and $4.01 respectively. There were options to purchase 327,500 shares granted during the six months ended December 31, 2016. The fair value was estimated based on the weighted average assumptions of:

	For six months ended December 31,			
	2016		2015	
Risk-free interest rates	1.80	%	1.80	%
Expected option life in years	6.25		6.25	
Expected stock price volatility	54.68	%	55.35	%
Expected dividend yield	0	%	0	%

A summary of option activity under the Company's equity plans as of December 31, 2016, and changes during the six months ended December 31, 2016 is presented below:

	Outstanding Shares	Average Exercise Price	Aggregate Instrinsic Value
Vested and exercisable at June 30, 2016	1,790,224	$ 6.38	$ 1,675,072
Granted	327,500	$ 8.34	
Exercised	(22,500)	$ 6.26	
Forfeited	(357,875)	$ 8.25	
Expired	(2,700)	$ 3.45	
Outstanding as of December 31, 2016	1,734,649	$ 6.37	$ 7,442,293
Vested and exercisable at December 31, 2016	977,274	$ 4.48	$ 5,936,832

The total fair value of shares vested during the six months ended December 31, 2016 was $923,215. The number and weighted-average grant-date fair value of non-vested stock options at the beginning of fiscal 2017 was 976,875 and $4.81, respectively. The number and weighted-average grant-date fair value of stock options which vested during the six months ended December 31, 2016 was 190,500 and $4.85, respectively.

Restricted Stock Awards

On December 15, 2016, the Company issued 400,000 shares of restricted stock to its Chief Executive Officer. These awards vest over a period of up to five years, subject to meeting certain service, performance and market conditions. These awards were valued at approximately $3.4 million and compensation expense recorded in the quarter ended December 31, 2016 was $40,565.

9. Commitments and Contingencies

Leases

The Company has entered into several non-cancellable operating leases for the rental of certain manufacturing and office space, equipment and automobiles expiring in various years through 2021. The principal building lease provides for a monthly rental of approximately $26,000. The Company also leases certain office equipment and automobiles under operating leases expiring through fiscal 2018.

Class Action Securities Litigation

On September 19, 2016, Richard Scalfani, an individual shareholder of Misonix, filed a lawsuit against the Company and its former CEO and CFO in the U.S. District Court for the Eastern District of New York, alleging violations of the federal securities laws. The complaint alleges that the Company's stock price was artificially inflated between November 5, 2015 and September 14, 2016 as a result of alleged false and misleading statements in the Company's securities filings concerning the Company's business, operations, and prospects and the Company's internal control over financial reporting. Scalfani filed the action seeking to represent a putative class of all persons (other than defendants, officers and directors of the Company, and their affiliates) who purchased publicly traded Misonix securities between November 5, 2015 and September 14, 2016. Scalfani seeks an unspecified amount of damages for himself and for the putative class under the federal securities laws.

On November 18, 2016, Scalfani and another individual Misonix shareholder, Tracey Angiuoli, petitioned the Court to be appointed lead plaintiffs for purposes of pursuing the action on behalf of the putative class.

The Company believes it has various legal and factual defenses to the allegations in the complaint, and intends to vigorously defend the action. The case is at its earliest stages; there has been no discovery and there is no trial date. The Company is not able to estimate the amount of potential loss it may recognize, if any, from this claim. The Company believes that its insurance coverage is sufficient to cover a potential loss, after payment of the policy retention of $250,000.

Chinese Distributor

For several months, with the assistance of outside counsel, the Company has been conducting a voluntary investigation into the business practices of the independent Chinese entity that previously distributed its products in China and the Company's knowledge of those business practices, which may have implications under the FCPA, as well as into various internal controls issues identified during the investigation.

On September 27, 2016 and September 28, 2016, we voluntarily contacted the SEC and the DOJ, respectively, to advise both agencies of these potential issues. The Company has provided and will continue to provide documents and other information to the SEC and the DOJ, and is cooperating fully with these agencies in their investigations of these matters.

Although the Company's investigation is complete, additional issues or facts could arise which may expand the scope or severity of the potential violations. The Company has no current information derived from the investigation or otherwise to suggest that its previously reported financial statements and results are incorrect.

At this stage, the Company is unable to predict what, if any, action the DOJ or the SEC may take or what, if any, penalties or remedial measures these agencies may seek. Nor can the Company predict the impact on the Company as a result of these matters, which may include the imposition of fines, civil and criminal penalties, which are not currently estimable, as well as equitable remedies, including disgorgement of any profits earned from improper conduct and injunctive relief, limitations on the Company's conduct, and the imposition of a compliance monitor. The DOJ and the SEC periodically have based the amount of a penalty or disgorgement in connection with an FCPA action, at least in part, on the amount of profits that a company obtained from the business in which the violations of the FCPA occurred. Since the inception of its distributorship relationship with the prior Chinese distributor in 2012, the Company has generated sales of approximately $8 million from the relationship.

Further, the Company may suffer other civil penalties or adverse impacts, including lawsuits by private litigants in addition to the lawsuit that has already been filed, or investigations and fines imposed by local authorities. The investigative costs to date are approximately $1.9 million, of which approximately $1.4 million was charged to general and administrative expenses during the six months ended December 31, 2016.

10. Related Party Transactions

Applied BioSurgical, a company owned by the brother of the Company's Chief Executive Officer, Stavros G. Vizirgianakis, is an independent distributor for the Company outside of the United States.

Set forth below is a table showing the Company's net sales for the six months ended December 31 and accounts receivable at December 31 for the indicated time periods below with Applied BioSurgical:

	2016	2015
Sales	$278,036	$135,965
Accounts receivable	$274,641	$4,248

On October 25, 2016, the Company sold 761,469 shares of Common Stock in a private placement to Stavros G. Vizirgianakis, the Company's current Chief Executive Officer, at a price per share of $5.253, representing total cash proceeds to the Company of approximately $4.0 million.

11. Income Taxes

For the six months ended December 31, 2016 and 2015, the Company recorded an income tax benefit from continuing operations of $56,000 and $307,000, respectively.

For the six months ended December 31, 2016 and 2015, the effective rate of (4.7)% and (87.2)%, respectively, on continuing operations varied from the U.S. federal statutory rate primarily due to permanent book tax differences, state taxes and tax credits.

The Company, as of June 30, 2015, reversed the valuation allowance against its deferred tax assets based on its consideration of all available positive and negative evidence including achieving cumulative profitable operating performance over the past three years and its positive outlook for taxable income for the future.

As of December 31, 2016 and June 30, 2016, the Company has no material unrecognized tax benefits or accrued interest and penalties.

12. Licensing Agreements for Medical Technology

In October 1996, the Company entered into a License Agreement with MMIT expiring August 2017, covering the further development and commercial exploitation of the Company's medical technology relating to laparoscopic products, which uses high frequency sound waves to coagulate and divide tissue for both open and laparoscopic surgery. The MMIT license provides for exclusive worldwide marketing and sales rights for this technology. The Company receives a 5% royalty on sales of these products by MMIT. Royalties from this license agreement were $1,885,788 and $1,979,026 for the six months ended December 31, 2016 and 2015, respectively.

13. Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision-maker (“CODM") in deciding how to allocate resources to an individual segment and in assessing performance of the segment. The Company has concluded that its Chief Executive Officer is the CODM as he is the ultimate decision maker for key operating decisions, determining the allocation of resources and assessing the financial performance of the Company. These decisions, allocations and assessments are performed by the CODM using consolidated financial information. Consolidated financial information is utilized by the CODM as the Company's current product offering primarily consists of minimally invasive therapeutic ultrasonic medical devices. The Company's products are relatively consistent and manufacturing is centralized and consistent across product offerings. Based on these factors, key operating decisions and resource allocations are made by the CODM using consolidated financial data and as such the Company has concluded that it operates as one segment.

Worldwide revenue for the Company's products is categorized as follows:

	For the Six Months Ended December 31,	
	2016	2015
Total		
Consumables	$9,453,080	$7,305,993
Equipment	2,748,925	3,984,347
Total	$12,202,005	$11,290,340
Domestic		
Consumables	$7,162,538	$5,286,747
Equipment	841,257	983,365
Total	$8,003,795	$6,270,112
International		
Consumables	$2,290,542	$2,019,246
Equipment	1,907,668	3,000,982
Total	$4,198,210	$5,020,228

Substantially all of the Company’s long-lived assets are located in the United States.

14. Severance

On August 26, 2016, the Company and the Company's former Chief Executive Officer, Michael McManus ("McManus") entered into a retirement agreement and general release (the "Retirement Agreement"). Pursuant to the Retirement Agreement, on September 2, 2016 Mr. McManus resigned as a Director and the Chairman of the Board of Directors of the Company and retired as President and Chief Executive Officer of the Company. Pursuant to the Retirement Agreement, the Company agreed to (i) pay Mr. McManus' salary through June 30, 2017 at the then current level; (ii) continue to pay premiums for Mr. McManus' and his dependents' coverage under the Company's medical, dental, vision, hospitalization, long term care and life insurance coverage through June 30, 2017 at the then current levels upon timely election by Mr. McManus under the law informally known as COBRA; and (iii) extend the exercisability of previously granted and then currently vested options to purchase shares of Common Stock through June 30, 2017. In addition, Mr. McManus had continued use of the vehicle provided him pursuant to his prior employment agreement through December 31, 2016. In connection with this Retirement Agreement, the Company recorded a charge of $330,000 during the quarter ended September 30, 2016 to accrue for the cash portion of these benefits, which will be paid during the period ending June 30, 2017. In addition, the Company recorded a non-cash compensation expense of $61,000 in connection with the modification of the terms of his vested stock options, and recorded a reduction in non-cash compensation expense of $596,000 relating to the forfeiture of his unvested stock options.

15. Subsequent Events

NASDAQ Deficiency Letters

On September 15, 2016, Misonix received a deficiency letter from The Nasdaq Stock Market LLC ("Nasdaq") indicating that the Company, as a result of not filing its Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the "10-K") on September 13, 2016 and disclosing that the Company likely would not be able to file the 10-K within the 15-day extension period provided in Rule 12b-25(b) under the Securities Exchange Act of 1934, as amended, was not in compliance with Listing Rule 5250(c)(1) of the Nasdaq Listing Rules (the "Rules") for continued listing. In addition, on November 10, 2016, Misonix received a second deficiency letter from Nasdaq indicating that the Company, as a result of not filing its Quarterly Report on Form 10-Q for the period ended December 31, 2016 (the "Q1 10-Q") by November 9, 2016, together with its prior failure to timely file the 10-K, was not in compliance with Listing Rule 5250(c)(1) for continued listing. In the letters, Nasdaq requested that Misonix submit a plan to regain compliance with the Rules by November 14, 2016. On November 14, 2016, Misonix submitted to Nasdaq a plan to regain compliance with the Rules. After reviewing Misonix's plan to regain compliance, Nasdaq granted an exception to enable the Company to regain compliance with the Rules. Under the terms of the exception, Misonix must file its 10-K and Q1 10-Q on or before March 13, 2017. In the event that Misonix does not satisfy the terms set forth in the extension, Nasdaq will provide written notification that Misonix's common stock will be delisted. At that time, Misonix may appeal Nasdaq's determination for a panel review. The Company filed the 10-K with the SEC on February 9, 2017.

On February 10, 2017, Misonix received a third deficiency letter from Nasdaq indicating that the Company, as a result of not filing its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2016 (the "Q2 10-Q") by February 9, 2017 and disclosing that the Company will not be able to file the Q2 10-Q within the five-day extension period provided in Rule 12b-25(b) under the Exchange Act, together with its prior and ongoing failure to timely file the Q1 10-Q, was not in compliance with Listing Rule 5250(c)(1) for continued listing. The Company previously submitted a plan to Nasdaq to regain compliance with the Rules and Nasdaq has granted the Company an exception until March 13, 2017 to regain compliance. The Company submitted its amended compliance plan to the Nasdaq on February 23, 2017 indicating that the Company expected to file its Q1 10-Q and Q2 10-Q by March 13, 2017.

Investigative Fees

Subsequent to December 31, 2016, the Company has incurred approximately $0.4 million in fees relating to its FCPA investigation and related activities.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations of Misonix and its subsidiaries, which we refer to as the “Company”, “Misonix”, “we”, “our” and “us”, should be read in conjunction with the accompanying unaudited financial statements included in Part I – Item 1 “Financial Statements” of this Report and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the “SEC”) on February 9, 2017, for the fiscal year ended June 30, 2016 (“2016 Form 10-K”). Item 7 of the 2016 Form 10-K describes the application of our critical accounting policies, for which there have been no significant changes as of December 31, 2016.

Forward Looking Statements

With the exception of historical information contained in this Form 10-Q, content herein may contain "forward looking statements" that are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. We cannot guarantee that any forward looking statements will be accurate, although we believe that we have been reasonable in our expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from our expectations and projections. These factors include general economic conditions, delays and risks associated with the performance of contracts, risks associated with international sales and currency fluctuations, uncertainties as a result of research and development, acceptable results from clinical studies, including publication of results and patient/procedure data with varying levels of statistical relevance, risks involved in introducing and marketing new products, regulatory compliance, potential acquisitions, consumer and industry acceptance, litigation and/or contemplated 510(k) filings, the ability to achieve and maintain profitability in our business lines, and other factors discussed in the 2016 Form 10-K, subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. We disclaim any obligation to update any forward-looking statements.

Overview

Misonix designs, manufactures, develops and markets therapeutic ultrasonic devices. These products are used for precise bone sculpting, removal of soft tumors, and tissue debridement in the fields of orthopedic surgery, plastic surgery, neurosurgery, podiatry and vascular surgery. In the United States, the Company sells its products through a network of commissioned agents assisted by Company personnel. Outside of the United States, the Company sells to distributors who then resell the product to hospitals. The Company operates as one business segment.

In the United States, the Company is taking a more aggressive approach to taking market share, expanding the market and increasing its share of recurring disposable revenue by using a consignment model, whereby the Company will consign the equipment (which is defined as a generator, hand pieces and accessories) (the “Equipment”) and sell to customers higher margin disposable, single use items (the “Consumables”) on a recurring basis. Title remains with the Company with respect to consigned Equipment, which is depreciated and charged to selling expenses over a five year period beginning in fiscal 2017, and a three year period in fiscal 2016. Outside of the United States, the Company has principally not yet adopted a consignment model. The Company’s overall goal is to increase the utilization rate of Equipment which will increase the total number of procedures and maximize the sale of Consumables to our customers, with the goal of becoming the standard of care in the various segments we focus on.

Results of Operations

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. Unless otherwise specified, this discussion relates solely to the Company's continuing operations.

All of the Company's sales have been derived from the sale of medical device products, which include manufacture and distribution of ultrasonic medical device products.

Three months ended December 31, 2016 and 2015

Our sales by category for the three months ended December 31, 2016 and 2015 are as follows:

	For the Three Months Ended December 31,		Net Change	
	2016	2015	$	%
Total				
Consumables	$ 4,908,885	$ 3,815,307	$ 1,093,578	28.7 %
Equipment	1,121,495	2,224,048	(1,102,553)	-49.6%
Total	$ 6,030,380	$ 6,039,355	$ (8,975)	-0.1 %
Domestic				
Consumables	$ 3,844,609	$ 2,702,636	$ 1,141,973	42.3 %
Equipment	272,629	499,405	(226,776)	-45.4%
Total	$ 4,117,238	$ 3,202,041	$ 915,197	28.6 %
International				
Consumables	$ 1,064,276	$ 1,112,671	$ (48,395)	-4.3 %
Equipment	848,866	1,724,643	(875,777)	-50.8%
Total	$ 1,913,142	$ 2,837,314	$ (924,172)	-32.6%

Net sales

Net sales decreased $8,975 to $6,030,380 in the second quarter of fiscal 2017, from $6,039,355 in fiscal 2016. Consumable sales in the United States increased 42.3%, or $1,141,973 for the quarter, in part due to the Company's continued investment in its sales team and marketing efforts. This was offset by a reduction in International sales of $924,172. During the first quarter of fiscal 2017, the Company terminated its relationship with its Chinese distributor, which was its largest customer. Sales to this distributor during the three months ended December 31, 2016 and 2015 were $0 and $646,583, respectively. In February 2017, the Company executed an agreement with a new Chinese distributor, with initial shipments anticipated to begin in 2017.

Gross profit

Gross profit in the second quarter of fiscal 2017 was 69.8% of sales, which increased from 67.6% in the second quarter of fiscal 2016. The increase resulted from a stronger mix of Consumables revenue which carries a higher gross profit margin than Equipment revenue.

Selling expenses

Selling expenses increased by $279,447, or 9.3% to $3,271,134 in the second quarter of fiscal 2017 from $2,991,687 in the prior year period. The increase is principally related to higher salary and sales commission expenses. The Company continues to invest in sales and marketing in order to gain market share. The Company's strategy to leverage its existing distributor network with product specialists domestically resulted in part in domestic sales growing by 28.6% during the second quarter. This quarterly expense increase was partially offset by a decrease in depreciation of consigned units of $134,000, resulting from a change in accounting estimate to depreciate these units over five years in fiscal 2017 compared with three years in fiscal 2016.

General and administrative expenses

General and administrative expenses increased by $412,329, or 24.6% to $2,087,419 in the second quarter of fiscal 2017 from $1,675,090 in the prior year period. The increase resulted principally from increased legal and accounting fees of $694,000 relating to the Investigation.

Research and development expenses

Research and development expenses increased by $48,296, or 12.3% to $440,364 in the second quarter of fiscal 2017 from $392,068 in the prior year period. The increase is due generally to higher salary and consulting costs for increased product development activities.

Other income (expense)

Other income decreased $70,547 to $942,427 in the second quarter of fiscal 2017 from $1,012,974 in the prior year period. The decrease is related to lower royalty income from MMIT. This royalty agreement expires in August 2017.

Income taxes

For the three months ended December 31, 2016 and 2015, the Company recorded an income tax benefit from continuing operations of $30,000 and $139,000, respectively. For the three months ended December 31, 2016 and 2015, the Company recorded a tax benefit with an effective tax rate of (4.7)% compared to (390.6)%, respectively. The change relates to a change in permanent book to tax differences. The effective tax rate for both periods was also affected by state taxes and tax credits.

Six months ended December 31, 2016 and 2015

Our sales by category for the six months ended December 31, 2016 and 2015 are as follows:

	For the Six Months Ended December 31,		Net Change	
	2016	2015	$	%
Total				
Consumables	$9,453,080	$7,305,993	$2,147,087	29.4 %
Equipment	2,748,925	3,984,347	(1,235,422)	-31.0%
Total	$12,202,005	$11,290,340	$911,665	8.1 %
Domestic				
Consumables	$7,162,538	$5,286,747	$1,875,791	35.5 %
Equipment	841,257	983,365	(142,108)	-14.5%
Total	$8,003,795	$6,270,112	$1,733,683	27.6 %
International				
Consumables	$2,290,542	$2,019,246	$271,296	13.4 %
Equipment	1,907,668	3,000,982	(1,093,314)	-36.4%
Total	$4,198,210	$5,020,228	$(822,018)	-16.4%

Net sales

Net sales increased $911,665 to $12,202,005 in the first six months of fiscal 2017, from $11,290,340 the prior year period. Consumable sales in the United States increased 35.5%, or $1,875,791 for the period, in part due to the Company’s continued investment in its sales team and marketing efforts. This was offset by a reduction in

International sales of $822,018. During the first quarter of fiscal 2017, the Company terminated its relationship with its Chinese distributor, which was its largest customer. Sales to this distributor during the six months ended December 31, 2016 and 2015 were $0 and $899,635, respectively. In February 2017, the Company executed an agreement with a new Chinese distributor, with initial shipments anticipated to begin in 2017.

Gross profit

Gross profit in the first six months of fiscal 2017 was 69.4% of sales, which increased from 67.1% in the prior year period. The increase resulted from a stronger mix of Consumables revenue which carries a higher gross profit margin than Equipment revenue.

Selling expenses

Selling expenses increased by $948,854, or 16.8% to $6,596,821 in the first six months of fiscal 2017 from $5,647,967 in the prior year period. The increase is principally related to higher salary and sales commission expenses. The Company continues to invest in sales and marketing in order to gain market share. The Company's strategy to leverage its existing distributor network with product specialists domestically resulted in part in domestic sales growing by 27.6% during the first half of fiscal 2017. This expense increase was partially offset by a decrease in depreciation of consigned units of $268,000, resulting from a change in accounting estimate to depreciate these units over five years in fiscal 2017 compared with three years in fiscal 2016.

General and administrative expenses

General and administrative expenses increased by $540,230, or 15.5% to $4,019,240 in the first six months of fiscal 2017 from $3,479,010 in the prior year period. The increase resulted principally from increased legal and accounting fees of $1.1 million relating to the Investigation. This increase was partially offset by a reduction in non-cash stock compensation expense of $805,000, which includes a reversal of stock compensation previously recognized on the Company's prior CEO, and the second quarter of fiscal 2017 did not contain a charge for CEO compensation.

Research and development expenses

Research and development expenses increased by $140,386, or 17.7% to $932,448 in the first six months of fiscal 2017 from $792,062 in the prior year period. The increase is due generally to higher salary and consulting costs for increased product development activities.

Other income (expense)

Other income decreased $110,624 to $1,884,518 in the first half of fiscal 2017 from $1,995,142 in the prior year period. The decrease is related to lower royalty income from MMIT. This royalty agreement expires in August 2017.

Income taxes

For the six months ended December 31, 2016 and 2015, the Company recorded an income tax benefit from continuing operations of $56,000 and $307,000, respectively. For the six months ended December 31, 2016 and 2015, the Company recorded a tax benefit with an effective tax rate of (4.7)% and (87.2)%, respectively. The change relates to a change in permanent book to tax differences. The effective tax rate for both periods was also affected by state taxes and tax credits.

Liquidity and Capital Resources

Working capital at December 31, 2016 was $18.1 million. For the six months ended December 31, 2016, cash used in operations was $101,331, mainly due to the Company’s net loss of $1,136,665 and an increase in inventory of $117,000, offset by $566,000 of non-cash depreciation expense and non-cash compensation, a $289,000 reduction in accounts receivable and prepaid expenses, and a $381,000 increase in accounts payable and accrued expenses.

Cash used in investing activities was $322,723, primarily consisting of the purchase of property, plant and equipment along with filing for additional patents.

Cash provided by investing activities was $4.1 million for the first six months of fiscal 2017. On October 25, 2016, the Company sold 761,469 shares of Common Stock in a private placement to Stavros G. Vizirgianakis, a director of the Company and its current Chief Executive Officer, at a price per share of $5.253, representing total cash proceeds to the Company of approximately $4.0 million.

As of February 28, 2017, the Company had a cash balance of approximately $11.9 million and believes it has sufficient cash to finance operations for at least the next 12 months.

Relating to the internal investigation described herein, the Company has incurred approximately $1.9 million in investigative costs and is expected to incur additional costs until the matter is fully resolved. Further, the Company could be subject to fines or penalties related to potential violations of the FCPA.

The Company has been receiving an annual royalty from MMIT which has averaged $3.7 million per year over the last three fiscal years. This royalty will end in August 2017.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to the Company.

Other

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

Recent Accounting Pronouncements

See Note 1 to our consolidated financial statements included herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk:

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed are interest rates on cash and cash equivalents.

Interest Rate Risk:

The Company earns interest on cash balances and pays interest on debt incurred. In light of the Company's existing cash, results of operations and projected borrowing requirements, the Company does not believe that a 10% change in interest rates would have a significant impact on its consolidated financial position.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

All internal control systems, no matter how well designed and tested, have inherent limitations, including, among other things, the possibility of human error, circumvention or disregard. Therefore, even those systems of internal control that have been determined to be effective can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Part II - Item 1 “Legal Proceedings” in this 10-Q, in April 2016, the Company’s management informed the Board of violations of Company policies and procedures and possible violations of laws and regulations, involving Michael A. McManus, the Company’s former President and Chief Executive Officer, and other Company personnel. Subsequently, in mid-May 2016, the Audit Committee of the Board of Directors initiated the investigation of these matters. Special external counsel was retained and conducted the Investigation with the assistance of an advisory firm with forensic accounting expertise. Mr. McManus’ employment with the Company ceased on September 2, 2016.

The Investigation resulted in the Company notifying the SEC and DOJ about possible violations of the FCPA and other internal controls matters. These possible violations of laws included knowledge of certain business practices of the independent Chinese entity that distributes the Company’s products in China, which practices raised questions under the FCPA.

The Investigation did not identify any financial loss to the Company and did not identify any material misstatements in the Company’s financial statements. However, as a result of the Company’s Investigation and related activities, it has incurred approximately $1.8 million of professional fees as of February 28, 2017 and has terminated the agreement with its former distributor in China, which was the Company’s largest customer during the prior three fiscal years. In addition, the Company could be subject to disgorgement, fines or penalties related to potential violations of the FCPA

as described in Part II - Item 1 “Legal Proceedings” below.

In connection with the Investigation, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of December 31, 2016. Due to the material weaknesses in internal control over financial reporting as described below in “Internal Control over Financial Reporting”, our current CEO and Interim CFO have concluded that our disclosure controls and procedures were not effective, and were not operating at a reasonable assurance level, as of December 31, 2016.

Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining effective internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting refers to a process designed by, or under the supervision of, our CEO and our CFO and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our Board; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, management has determined, because of the findings from the Investigation, and the Company's inability to rely on certain personnel, processes and internal controls, that material weaknesses existed at December 31, 2016, as described below. In light of such material weaknesses, management has concluded that the Company's internal control over financial reporting was ineffective as of December 31, 2016.

The Company did not have an effective control environment, risk assessment process, information and communication process and monitoring activities. These matters related to ineffective ethical governance, ineffective governance controls, and ineffectively implemented policies and procedures. The aggregation of issues identified within each of these areas resulted in the conclusion that a material weakness existed with respect to the "tone at the top" and effectiveness of governance within the Company. Specifically:

- The Company failed to establish a tone at the top that demonstrated its commitment to integrity and ethical values.
- The Company lacked effective controls and procedures to ensure that all members of management and Board members report to the full Board all possible illegal acts and violations of Company policy.
- The Company lacked effective procedures and controls to ensure that all reimbursement requests are handled in a manner consistent with the Board's authorizations and the Company's policies and procedures.
- The Company did not have effective information and communication and monitoring controls, including a robust whistleblower process, relating to the timely identification and communication of issues among financial reporting personnel, management, the Board, and the independent registered public accounting firm to enable appropriate analysis, financial reporting, and disclosure of such transactions.

In addition, the Company did not properly supervise the preparation and review the calculation of its income tax provision and deferred tax asset. While this control deficiency did not result in a material misstatement of the

Company's financial statements, it could have resulted in misstatements of the aforementioned accounts and disclosures that would not be prevented or detected in a timely manner. Accordingly, our management concluded that this control deficiency also constitutes a material weakness.

The identified control deficiencies did not result in any material misstatements in the Company's financial statements. However, these control deficiencies created a reasonable possibility that a material misstatement to the consolidated financial statements would not be prevented or detected on a timely basis. Accordingly, we concluded that the control deficiencies represented material weaknesses in the Company's internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2016.

Remediation of Material Weaknesses

The Company continues to work to strengthen our internal control over financial reporting. We are committed to ensuring that such controls are designed and operating effectively. Our Board and management take internal control over financial reporting and the integrity of the Company's financial statements seriously and believe that the remediation steps described below, including with respect to personnel changes, were and are essential steps to establishing and maintaining strong and effective internal control over financial reporting and addressing the tone at the top concerns that contributed to the material weaknesses identified. Some of these remediation steps have taken place as of December 31, 2016. The following actions and plans will be or have been implemented during the fiscal 2017 year:

- The Board replaced Mr. McManus effective September 2, 2016 with our then interim and now current CEO, Stavros G. Vizirgianakis. In addition, on September 13, 2016, the Board appointed Joseph P. Dwyer as the Company's interim CFO, reporting to the Company's new CEO and the Audit Committee of the Board. On that date, Richard A. Zaremba ceased serving as the Company's Senior Vice President and CFO and was appointed Senior Vice President, Finance, while remaining as the Company's Secretary and Treasurer.

- In November 2016, the Company hired an Interim Chief Compliance Officer who reports directly and regularly to the CEO and the Chairman of the Audit Committee. The Interim Chief Compliance Officer is implementing an improved documentary framework, focusing initially on FCPA compliance and working with the Company's sales and marketing personnel.

- The Board, as recommended by the Interim Chief Compliance Officer, reconstituted the Company's internal compliance committee to include the entire senior management team, with the Chief Compliance Officer as Chair and the sales and marketing officers as non-voting members. This action was designed in part to ensure that all members of senior management report all possible illegal acts.

- The Company reconstituted the membership of its Board committees. T. Guy Minetti, former Chairman of our Audit Committee, resigned from the Board on December 15, 2016.

- The Board reviewed and updated its Committee charters to provide, among other things, a more robust and structured governance process.

- The Company updated its Code of Conduct and Ethics and implemented a toll-free whistleblower hotline that is reported directly to the Chairman of the Audit Committee. In addition, the Company has increased communication and will increase training to employees regarding the ethical values of the Company and the requirement to comply with laws, rules, regulations, and Company policies, including the Code of Conduct and Ethics, and the importance of accurate and transparent financial reporting.

- Under the supervision of the Board, the Company will emphasize to key leadership the importance of setting appropriate tone at the top and of appropriate behavior with respect to accurate financial reporting, compliance with laws, and adherence to the Company's internal control over financial reporting framework and accounting policies.

- The Company terminated the agreement with its former independent distributor of its products in China.

- The Company is amending distribution agreements with its international distributors to add more fulsome provisions regarding compliance with laws, including compliance with the FCPA and other applicable anti-bribery provisions.

- The Company is instituting a more robust screening process for its independent distributors with respect to legal compliance, including compliance with the FCPA and other applicable anti-bribery provisions.

- The Company is implementing a regularly recurring risk assessment process focused on identifying and analyzing risks of financial misstatement due to error and/or fraud, including management override of controls.

- The Company is updating its policies and procedures to ensure the proper processing of transactions with senior executives, and to enhance the review and approval for these types of transactions and ensure their proper disclosure, and will train relevant employees on such updated policies.

- We have engaged a third-party expert consulting firm specializing in tax and technical accounting and financial reporting issues to assist our management with the review of our tax provisions and the accounting treatment and the financial reporting and disclosure of complex and non-recurring transactions.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As noted above, the Company began the process of enhancing existing controls and designing and implementing additional controls and procedures in response to the material weaknesses.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Former Chinese Distributor

For several months, with the assistance of outside counsel, the Company has been conducting the Investigation into the business practices of the independent Chinese entity that previously distributed its products in China and the Company's knowledge of those business practices, which may have implications under the FCPA, as well as into various internal controls issues identified during the Investigation.

On September 27, 2016 and September 28, 2016, we voluntarily contacted the SEC and the DOJ, respectively, to advise both agencies of these potential issues. We have provided and will continue to provide documents and other information to the SEC and the DOJ, and are cooperating fully with these agencies in their investigations of these matters.

Although our Investigation is complete, additional issues or facts could arise which may expand the scope or severity of the potential violations. The Company could also receive additional requests from the DOJ or SEC, which may require further investigation. The Company has no current information derived from the Investigation or otherwise to suggest that its previously reported financial statements and results are incorrect.

At this stage, the Company is unable to predict what, if any, action the DOJ or the SEC may take or what, if any, penalties or remedial measures these agencies may seek. Nor can we predict the impact on the Company as a result of these matters, which may include the cost of investigations, defense, imposition of fines, civil and criminal penalties, which are not currently estimable, as well as equitable remedies, including disgorgement of any profits earned from improper conduct and injunctive relief, limitations on the Company's conduct, and the imposition of a compliance monitor. The DOJ and the SEC periodically have based the amount of a penalty or disgorgement in connection with an FCPA action, at least in part, on the amount of profits that a company obtained from the business in which the violations of the FCPA occurred. Since the inception of its distributorship relationship with the prior Chinese distributor in 2012, the Company has generated sales of approximately $8 million from the relationship.

Further, we may suffer other civil penalties or adverse impacts, including lawsuits by private litigants in addition to the lawsuit that has already been filed, or investigations and fines imposed by local authorities.

Class Action Securities Litigation

On September 19, 2016, Richard Scalfani, an individual shareholder of Misonix, filed a lawsuit against the Company and its former CEO and CFO in the U.S. District Court for the Eastern District of New York, alleging violations of the federal securities laws. The complaint alleges that the Company's stock price was artificially inflated between November 5, 2015 and September 14, 2016 as a result of alleged false and misleading statements in the Company's securities filings concerning the Company's business, operations, and prospects and the Company's internal control over financial reporting. Scalfani filed the action seeking to represent a putative class of all persons (other than defendants, officers and directors of the Company, and their affiliates) who purchased publicly traded Misonix securities between November 5, 2015 and September 14, 2016. Scalfani seeks an unspecified amount of damages for himself and for the putative class under the federal securities laws.

On November 18, 2016, Scalfani and another individual Misonix shareholder, Tracey Angiuoli, petitioned the Court to be appointed lead plaintiffs for purposes of pursuing the action on behalf of the putative class.

The Company believes it has various legal and factual defenses to the allegations in the complaint, and intends to vigorously defend the action. The case is at its earliest stages; there has been no discovery and there is no trial date.

Item 1A. Risk Factors.

Risks and uncertainties that, if they were to occur, could materially adversely affect our business or that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report and other public statements were set forth in the Item 1A. – "Risk Factors" section of our Form 10-K for the fiscal year ended June 30, 2016. There have been no material changes from the risk factors disclosed in that Form 10-K.

Item 6. Exhibits

Exhibit No.	Description
31.1	Chief Executive Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MISONIX, INC.

Dated: March 13, 2017 By: /s/ Stavros G. Vizirgianakis
Stavros G. Vizirgianakis
Chief Executive Officer

By: /s/ Joseph P. Dwyer
Joseph P. Dwyer
Interim Chief Financial Officer

Exhibit No.	Description
31.1	Chief Executive Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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