MICROFLUIDICS INTERNATIONAL CORP
Form 10-Q
August 12, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from **to**

Commission File Number: 0-11625

MICROFLUIDICS INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(617) 969-5452

(Registrant s telephone number, including area code)

MFIC CORPORATION

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of August 12, 2008, 10,277,141 shares of the registrant s Common Stock, par value $.01 per share, were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MICROFLUIDICS INTERNATIONAL CORPORATION

Condensed Consolidated Balance Sheets

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

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,162	$ 756
Accounts receivable, net of allowance of $41 at June 30, 2008 and December 31, 2007	2,250	2,582
Inventories	2,638	2,353
Prepaid and other current assets	688	281
Total current assets	6,738	5,972
Property and equipment, net	849	325
Patents and licenses, net	58	60
Total assets	$ 7,645	$ 6,357
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Revolving credit line	$ 1,012	$ 262
Current maturities of long-term debt and obligations under capital lease		65
Accounts payable	1,449	129
Accrued expenses	1,069	725
Customer advances	464	409
Total current liabilities	3,994	1,590
Total liabilities	3,994	1,590
Stockholders equity:		
Common stock; $.01 par value; 20,000,000 shares authorized; 10,528,427 and 10,517,178 shares issued; 10,267,981 and 10,256,732 shares outstanding as of June 30, 2008 and December 31, 2007, respectively.	105	105
Additional paid-in capital	17,497	17,378
Accumulated deficit	(13,263)	(12,028)
Treasury stock, 260,446 shares, at cost, as of June 30, 2008 and December 31, 2007	(688)	(688)
Total stockholders equity	3,651	4,767
Total liabilities and stockholders equity	$ 7,645	$ 6,357

See notes to unaudited condensed consolidated financial statements.

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MICROFLUIDICS INTERNATIONAL CORPORATION

Condensed Consolidated Statements of Operations

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

	For The Three Months Ended June 30, 2008	For The Three Months Ended June 30, 2007	For The Six Months Ended June 30, 2008	For The Six Months Ended June 30, 2007
Revenues	$ 4,374	$ 3,557	$ 7,896	$ 6,358
Cost of goods sold	2,225	1,453	3,834	2,646
Gross profit	2,149	2,104	4,062	3,712
Operating expenses:				
Research and development	572	438	1,062	974
Selling	1,196	984	2,128	1,808
General and administrative	1,175	805	2,118	1,483
Total operating expenses	2,943	2,227	5,308	4,265
Loss from operations	(794)	(123)	(1,246)	(553)
Interest expense	(6)	(1)	(10)	(9)
Interest income	10	17	21	38
Net loss	$ (790)	$ (107)	$ (1,235)	$ (524)
Net loss per common share:				
Basic	$ (0.08)	$ (0.01)	$ (0.12)	$ (0.05)
Diluted	$ (0.08)	$ (0.01)	$ (0.12)	$ (0.05)
Weighted average number of common and common equivalent shares outstanding:				
Basic	10,267,981	10,180,413	10,267,981	10,151,749
Diluted	10,267,981	10,180,413	10,267,981	10,151,749

See notes to unaudited condensed consolidated financial statements.

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MICROFLUIDICS INTERNATIONAL CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited - in thousands)

	For The Six Months Ended June 30, 2008	2007
Cash flows from operating activities:		
Net loss	$ (1,235)	$ (524)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and amortization	80	82
Provision for obsolete inventory	(18)	12
Share-based compensation	108	137
Changes in assets and liabilities:		
Accounts receivable	332	1,132
Inventories	(267)	(555)
Prepaid expenses and other current assets	(407)	(6)
Accounts payable	1,320	(60)
Accrued expenses	344	(239)
Customer advances	55	(342)
Net cash flows provided by (used in) operating activities	312	(363)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(603)	(113)
Net cash flows used in investing activities	(603)	(113)
Cash flows from financing activities:		
Proceeds from borrowings on revolver loan	1,012	
Payments on bank line of credit	(262)	
Principal repayments on long-term debt and obligations under capital leases	(65)	(130)
Net proceeds from issuance of common stock	11	68
Net cash flows provided by (used in) financing activities	697	(62)
Net change in cash and cash equivalents	406	(538)
Cash and cash equivalents at beginning of period	756	1,860
Cash and cash equivalents at end of period	$ 1,162	$ 1,322

See notes to unaudited condensed consolidated financial statements.

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MICROFLUIDICS INTERNATIONAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of Business

Company Overview

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

We, through our wholly-owned subsidiary, Microfluidics Corporation (Microfluidics), operate in one segment, producing and marketing a broad line of proprietary high-shear fluid processing systems used primarily in the pharmaceutical, biotechnology, digital ink, microelectronics, food, chemical and personal care industries.

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

Our corporate headquarters and manufacturing operations are located in Newton, Massachusetts.

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

2. Interim Financial Statements

The condensed consolidated financial information for the three and six months ended June 30, 2008 are unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial position at such date and of the operating results and cash flows for the period. The results of operations for the three and six months ended June 30, 2008 and 2007 are not necessarily indicative of results that may be expected for the entire year. The information contained in this Form 10-Q should be read in conjunction with the Company s audited financial statements, included in its Annual Report on Form 10-K as of and for the year ended December 31, 2007 filed with the Securities and Exchange Commission (SEC).

The balance sheet as of December 31, 2007 has been derived from our audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

3. Significant Accounting Policies

The significant accounting policies followed by the Company and its subsidiary in preparing its unaudited condensed consolidated financial statements are set forth in Note 1 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

4. Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements* . Revenue is recognized when all of the following criteria are met: i) persuasive evidence of an arrangement exists, ii) delivery has occurred, iii) the price to the customer is fixed and determinable, and iv) collectibility is reasonably assured. In revenue transactions where support services are requested, revenue is recognized on shipment since the support service obligation is not essential to the functionality of the delivered products. Revenue transactions involving non-essential support services obligations are those which can generally be completed in a short period of time at insignificant cost and the skills required to complete these support services are not unique to us and in many cases can be provided by third parties or the customers. The customer s purchase obligations are not contingent upon performance of support services, if any, by us. Proceeds received in advance of product shipment are recorded as customer advances in the consolidated balance sheets. Returns and customer credits are infrequent and recorded as a reduction to sales. Rights of returns are not included in sales arrangements. Discounts from list prices are recorded as a reduction to sales. On occasion, we provide machines for rent by customers. Income for the rental of equipment is recognized on a straight-line basis over the rental term. Rental income and product sales are classified in revenues in the consolidated statements of operations.

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MICROFLUIDICS INTERNATIONAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

5. Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles* . This new standard identifies the sources of accounting principles and framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy).

The Financial Accounting Standards Board (FASB) believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing this statement to achieve that result. The new standard is effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles , and it is not expected that this Statement will result in a change in our current practice.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements.* This new standard provides guidance for using fair value to measure assets and liabilities. The FASB believes SFAS No. 157 also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company s choice to use fair value on its earnings. SFAS No. 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS No. 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS No. 157. This Statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007.

On January 1, 2008, we adopted both SFAS No. 157 and SFAS No. 159, neither of which had any material impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* . This new standard clarifies that a non-controlling or minority interest in a subsidiary is considered an ownership interest and accordingly, requires all entities to report such interests in subsidiaries as equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We expect to adopt SFAS No. 160 on January 1, 2009, and we do not expect it to have a material effect on operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

6. Stock Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123R, Share-based Payment which was adopted January 1, 2006, using the modified prospective transition method.

For the three month periods ended June 30, 2008 and 2007, the Company recognized stock-based employee compensation expense of $54,000 and $99,000, respectively. For the six month periods ended June 30, 2008 and 2007, the Company recognized stock-based employee compensation expense of $108,000 and $137,000, respectively. Stock-based employee compensation expense for the three and six month periods ended June 30, 2008 is included in General and Administrative expense of the unaudited condensed consolidated statement of operations.

The Company did not capitalize any stock-based compensation. The Company has established a valuation allowance for net deferred tax assets. Accordingly, no significant tax benefit on the stock-based compensation was recorded during the three and six month periods ended June 30, 2008 and 2007.

The fair value of each option granted during the three and six months ended June 30, 2008 and 2007 is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Dividend yield	None	None	None	None
Expected volatility	106.00	115.00	106.00	115.00
Risk-free interest rate	3.34%	4.54%	3.34%	4.54%
Expected life	5.0 years	5.0 years	5.0 years	5.0 years

The weighted average fair value of stock options granted during the six months ended June 30, 2008 and 2007 was $1.11 and $1.34 per share, respectively. We estimate forfeitures related to option grants at an annual rate of 9% for both 2008 and 2007.

Total unrecognized stock-based compensation expense related to unvested stock options, expected to be recognized over a weighted average period of 5 years, amounted to approximately $1,687,000 at June 30, 2008.

The Company has three (3) shareholder approved stock option plans (collectively, the Stock Option Plans) as follows: (i) the 1988 Stock Plan, which authorized the grant of stock rights for up to 3,500,000 shares of common stock (the 1988 Plan); (ii) the 1989 Non-Employee Director Stock Option Plan (the 1989 Plan), which authorized the grant of nonqualified stock options for up to 500,000 shares of common stock; and (iii) the 2006 Stock Plan (the 2006 Plan) which authorizes the grant of stock rights for up to 4,000,000 shares of common stock, increased by the number of shares of common stock underlying unexercised options issued under either the 1988 Plan or the 1989 Plan (collectively referred to herein as the Prior Plans) that expired after June 20, 2006, and decreased by the number of shares of common stock issued and issuable pursuant to options outstanding under the Prior Plans. The 2006 Plan was approved by our shareholders at the Annual Meeting of Shareholders held on June 20, 2006. Upon adoption of the 2006 Plan by our shareholders, we ceased granting new options under the Prior Plans. The Prior Plans permitted, and the 2006 Plan permits, the granting of stock awards to employees, officers, and non-employee members of the Board of Directors. Options granted under the Prior Plans and the 2006 Plan permit vesting over a 3-to-5 year period and expire 5-to-10 years from the date of grant.

At June 30, 2008, 234,121 shares were available for future grants under the 2006 Plan and no shares were available for future grants under the Prior Plans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

During the three months ended June 30, 2008 and 2007, the Company issued 182,175 and 0 stock options pursuant to the 2006 Plan, respectively, at exercise prices equal to or greater than the fair market value of the Company s common stock on the date of the grant. During the six months ended June 30, 2008 and 2007, the Company issued 408,597 and 72,232 stock options, pursuant to the 2006 Plan, respectively at exercise prices equal to or greater than the fair market value of the Company s common stock on the date of the grant.

During the three months ended June 30, 2008 and 2007 approximately 52,000 and 38,000 shares, respectively, were forfeited. During the six months ended June 30, 2008 and 2007, approximately 52,000 and 48,000 shares, respectively, were forfeited.

During the three months ended June 30, 2008 and 2007 there were 0 and 15,000 shares vested under the 2006 Plan respectively. During the six months ended June 30, 2008 and 2007, approximately 41,000 and 88,000 shares, respectively, were vested. Information regarding option activity for the six months ended June 30, 2008 under the 2006 Plan is summarized below:

	Options Outstanding		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term in Years
Options outstanding as of January 1, 2008	1,585,427	$	1.35	6.60
Granted	408,597		1.11	9.60
Exercised				
Cancelled	(51,825)		1.57	5.80
Options outstanding as of June 30, 2008	1,942,199	$	1.33	6.04
Options exercisable as of June 30, 2008	1,189,464	$	1.45	5.55

7. Inventories

Inventories consist of the following:

(in thousands)		June 30, 2008		December 31, 2007
Raw materials	$	2,471	$	2,140
Work in progress		36		63
Finished goods		321		358
		2,828		2,561
Less: provision for excess inventory		(190)		(208)
Total inventories	$	2,638	$	2,353

8. Property, Plant and Equipment

Property, plant and equipment consist of the following:

(in thousands)	June 30, 2008	December 31, 2007
Furniture, fixtures and office equipment	$ 827	$ 686
Machinery, equipment and tooling	470	455
Leasehold improvements	523	96
	1,820	1,237
Less: accumulated depreciation and amortization	(971)	(912)
	$ 849	$ 325

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months ended June 30, 2008 and 2007, depreciation expense was approximately $39,000 and $37,000, respectively. For the six months ended June 30, 2008 and 2007, depreciation expense was approximately $78,000 and $74,000, respectively.

9. Accrued Expenses

Accrued expenses consist of the following:

(in thousands)	June 30, 2008	December 31, 2007
Accrued expenses	$ 390	$ 273
Accrued wages and vacation pay	430	164
Accrued commissions	178	234
Accrued warranty	71	54
	$ 1,069	$ 725

10. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2008	2007	2008	2007
Shares for computation of basic net loss per share	10,268	10,180	10,268	10,152
Shares for computation of diluted net loss per share	10,268	10,180	10,268	10,152

11. Industry Segment, Geographic and Enterprise-Wide Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* requires companies to report selected information about operating segments, as well as enterprise-wide disclosures about products, services, geographic areas and major customers. Operating segments are determined based on the way management organizes its business for making operating decisions and assessing performance. The Company s chief decision-maker, as defined under SFAS No. 131, is the president and chief executive officer.

The Company has determined that it conducts its operations in one business segment: the development, manufacture, marketing and sale of process and formulation equipment. The Company s sales are primarily to companies with processing needs in the chemical, pharmaceutical, food, cosmetic, and biotechnology industries. The Company has less than 1% of total assets in foreign countries. As a result, the financial information disclosed herein represents all of the material financial information related to the Company s principal operating segment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands)	**2008**		**2007**		**2008**		**2007**	
North America	$ 1,430	32.7%	$ 2,011	56.5%	$ 2,921	37.0%	$ 3,718	58.5%
Asia	405	9.3%	604	17.0%	1,070	13.5%	1,034	16.2%
Europe	2,539	58.0%	942	26.5%	3,905	49.5%	1,606	25.3%
	$ 4,374	100.0%	$ 3,557	100.0%	$ 7,896	100.0%	$ 6,358	100.0%

The users of the Company s systems are in various industries, including the chemical, pharmaceuticals, food, cosmetic and biotechnology industries.

Glaxo Smith Kline and Novartis accounted for 28.6% and 13.8% respectively, of the Company s revenues for the three months ended June 30, 2008. Glaxo Smith Kline accounted for 25.9% of the Company s revenues in the six months ended June 30, 2008.

Two customers accounted for 14.9% and 13.2%, respectively, of the trade accounts receivable as of June 30, 2008. A reduction or delay in orders from any of the Company s significant customers could have a material adverse effect on the Company s results of operations.

12. Stockholders Equity

During the three months ended June 30, 2008 the Company issued no shares of common stock as a result of the exercise of options by employees and directors. During the three months ended June 30, 2007, the Company issued 10,000 shares of common stock as a result of the exercise of options by employees and directors, generating cash proceeds of approximately $13,000.

During the six months ended June 30, 2008 and 2007, the Company issued 0 and 42,450 shares, respectively, of common stock as a result of the exercise of options by employees and directors, generating cash proceeds of approximately $0 and $49,000, respectively.

During each of the three months ended June 30, 2008 and 2007, the Company issued no shares of common stock as a result of the purchase of shares under the Company s Employee Stock Purchase Plan, (the Employee Stock Purchase Plan). During the six months ended June 30, 2008 and 2007, the Company issued 11,249 and 15,353 shares, respectively, of common stock as a result of the purchase of shares under the Employee Stock Purchase Plan, generating cash proceeds of approximately $11,000 and $18,000, respectively.

13. Credit Facility

On June 30, 2008, the Company repaid the entire amount (the Payoff Amount) due under its Loan and Security Agreement (All Assets), dated March 3, 2004, with T.D. Banknorth, formerly known as Banknorth, N.A. (Banknorth), as modified pursuant to a Loan Modification Agreement dated November 20, 2006. The Payoff Amount was comprised of $1,000,000 in principal, and approximately $12,000 in interest and legal fees.

On June 30, 2008, the Company and its wholly owned subsidiary, Microfluidics Corporation, entered into a Loan and Security Agreement (the Domestic Loan Agreement) with a new lender, Silicon Valley Bank (SVB). On July 2, 2008, the Company and SVB entered into an Export-Import Bank Loan and Security Agreement (the Export-Import Loan Agreement) and together with the Domestic Loan Agreement, created the SVB Loan Agreement . The SVB Loan Agreement provides the Borrower with a revolving line of credit (Revolving Line of Credit).

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MICROFLUIDICS INTERNATIONAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Revolving Line of Credit has a two-year term and allows for a maximum outstanding balance of $2,500,000. The principal amount outstanding under the SVB Loan Agreement will accrue interest at a per annum rate equal to: (a) the greater of (i) five percent (5.00%) or (ii) the Lender s most recently announced prime rate, even if it is not the Lender s lowest rate, plus (b) one percent (1.00%). SVB s current prime rate is 5.00%. Interest is payable on the last business day of each month.

The SVB Loan Agreement also requires the Company to maintain two financial covenants: minimum liquidity, at all times, of not less than $500,000 and minimum tangible net worth of not less than $2,500,000 at all times ($3,000,000 on the last day of the third month of each fiscal quarter). The SVB Loan Agreement also imposes on the Company certain additional affirmative covenants.

As of June 30, 2008, the outstanding balance of the SVB Revolving Line of Credit was $1,012,000. As of June 30, 2007 the balance outstanding on Banknorth s term loan was approximately $188,000 with no outstanding balance on its revolving credit line.

14. Long-Term Debt

Long-term debt as of the following dates consisted of:

(in thousands)		June 30, 2008		December 31, 2007
Term note	$		$	62
Capital leases payable				3
				65
Less: current portion				(65)
Long-term debt, net of current portion	$		$	

15. Income Taxes

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate for the full fiscal year. Cumulative adjustments to the tax provision are recorded in the interim period in which a change in the estimated annual effective rate is determined. The effective tax rate calculation includes determining both the current and deferred income tax expense as well as accounting for the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. The future tax consequences attributable to these differences result in deferred tax assets and liabilities, which are included on our consolidated balance sheets. We must assess the recoverability of the deferred tax assets by considering whether it is more likely than not that some portion or all of the deferred tax assets will be realized. To the extent we believe that recovery does not meet this more likely than not standard as required in SFAS No. 109, *Accounting for Income Taxes* , we must establish a valuation allowance. Changes in the valuation allowance are reflected in determining the effective tax rate for the year.

For the three and six months ended June 30, 2008, the Company recognized no tax provision or benefit due to the loss from operations, nor adjusted the Company s full valuation allowance against its net deferred tax assets.

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

Future Operating Results

This report may contain forward-looking statements that are subject to certain risks and uncertainties including statements relating to the Company s plan to achieve, maintain, and/or increase growth in revenue and/or market share, to achieve, maintain, and /or increase operating profitability, and/or to achieve, maintain, and/or increase net operating profitability. Such statements are based on the Company s current expectations and are subject to a number of factors and uncertainties that could cause actual results achieved by the Company to differ materially from those described in the forward-looking statements. The Company cautions investors that there can be no assurance that the actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including but not limited to, the following risks and uncertainties: (i) whether the performance advantages of the Company s Microfluidizer® materials processing equipment will be realized commercially or that a commercial market for the equipment will continue to develop, (ii) whether the timing of orders will significantly affect quarter to quarter revenues and resulting net income results for a particular quarter, which may cause increased volatility in the Company s stock price, (iii) whether the Company will have access to sufficient working capital through continued and improving cash flow from sales and ongoing borrowing availability, the latter being subject to the Company s ability to maintain compliance with the covenants and terms of the Company s loan agreement with its senior lender, (iv) whether the Company s Microfluidics Reaction Technology (defined below) will be adopted by customers as a means of producing innovative materials in large quantities, (v) whether the Company is able to deploy prototype Microfluidics Reaction Technology systems for nanoparticle production and then manufacture and introduce commercial production Microfluidics Reaction Technology equipment, (vi) whether the Company will achieve a greater proportion of its sales in the future through the sale of advanced processor production systems, and (vii) those risks set forth in Part II, Item 1A, Risk Factors, in this Quarterly Report on Form 10-Q for the period ended June 30, 2008. The Company assumes no responsibility to update any forward-looking statements as a result of new information, future events, or otherwise.

Overview

We have specialized for over 20 years in manufacturing and marketing a broad line of materials processing systems, more specifically known as high shear fluid processing systems, which are systems used in numerous applications in the chemical, pharmaceutical, biotech, food and cosmetics industries.

Our line of high shear fluid processor equipment, marketed under our Microfluidizer® trademark and trade name, process premixed formulations to produce small, uniform structures, usually of the submicron and nanoscale size (commonly defined as particles having dimensions less than 100 nanometers) including nanostructures, microemulsions and nanosuspensions. The equipment produces commercial quantities of such materials important to producers of pharmaceuticals, coatings and other products.

Additionally, our equipment is used for cell disruption to harvest the cultivated contents of bacterial yeast, mammalian and /or plant cells and for liposomal encapsulation of materials for the cosmetics and biotech/biopharma industries.

We continue our efforts to commercialize our proprietary equipment, processes and technology for the continuous production of precipitated submicron or nanoscale particles by interaction of discrete streams of reacting materials (Microfluidics Reaction Technology or MRT). We have undertaken commercialization efforts for our patented Multiple Stream Mixer/Reactor (MMR), which is a high, pressure multiple stream mixer/reactor.

In May 2007, we submitted a paper and presented a poster for a new product at the Nano Science and Technology Institute (NSTI) Nanotech 2007 Meeting. The presentation introduced a variant of our Microfluidics Reaction Technology, the Co-Reactor process and technology (Co-Reactor). The Co-Reactor utilizes our Microfluidizer processor equipped with a co-axial feed to, among other processes; advance the manufacturing nanosuspensions from the bottom up by chemical reactions or physical processes such as crystallization. It has been demonstrated for a variety of drugs using solvent and anti-solvent crystallization. We anticipate commercialization and introduction of

Co-Reactor technology and equipment in 2009.

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The technology embodied within our Microfluidizer high shear fluid processor is used for formulation of products that are normally very difficult to mix and stabilize. Microfluidizer processors through process intensification allow manufacturers in the chemical, pharmaceutical, cosmetic, and food processing industries to produce higher quality products with better characteristics on a more consistent basis than with other blending, mixing or homogenizing techniques.

Further, we guarantee scale up of formulations and results on our processor equipment from flow rates as low as 100 to 200 milliliters per minute on our laboratory and bench top models to more than 15 gallons per minute on our production models.

Additionally, the equipment is used for cell disruption to harvest the cultivated contents of bacterial, yeast, mammalian and/or plant cells and for liposomal encapsulation of materials for the cosmetics and biotech/biopharma industries.

Our management believes that future commercialization and growth of nanotechnology may be, in large part, enabled by the manufacturing capability of our processing equipment and our Microfluidics Reaction Technology.

We were incorporated in Delaware in 1983. The Company, formerly named Biotechnology Development Corporation, changed its name effective June 8, 1993 to Microfluidics International Corporation, and again changed its name effective July 12, 1999 to MFIC Corporation. On June 18, 2008, we changed the Company s name back to Microfluidics International Corporation. Our principal executive offices are located at 30 Ossipee Road, in Newton, Massachusetts 02464 and our telephone number is (617) 969-5452.

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Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements included in Item 8 of our Annual Report on Form 10-K for the period ended December 31, 2007. However, certain of our accounting policies require the application of significant judgment by our management and such judgments are reflected in the amounts reported in our consolidated financial statements. In applying these policies, our management uses their judgment to determine the appropriate assumptions to be used in the determination of estimates. Those estimates are based on our historical experience, terms of existing contracts, our observance of market trends, information provided by our strategic partners and information available from other outside sources, as appropriate. Actual results may differ significantly from the estimates contained in our consolidated financial statements. There has been no change to our critical accounting policies through the quarter ended June 30, 2008. Our critical accounting policies are as follows:

- *Revenue Recognition*. We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements* . Revenue is recognized when all of the following criteria are met: i) persuasive evidence of an arrangement exists, ii) delivery has occurred, iii) the price to the customer is fixed and determinable, and iv) collectibility is reasonably assured. In revenue transactions where support services are requested, revenue is recognized on shipment since the support service obligation is not essential to the functionality of the delivered products. Revenue transactions involving non-essential support services obligations are those which can generally be completed in a short period of time at insignificant cost and the skills required to complete these support services are not unique to us and in many cases can be provided by third parties or the customers. The customer s purchase obligations are not contingent upon performance of support services, if any, by us. Proceeds received in advance of product shipment are recorded as customer advances in the consolidated balance sheets. Returns and customer credits are infrequent and recorded as a reduction to sales. Rights of returns are not included in sales arrangements. Discounts from list prices are recorded as a reduction to sales. On occasion, we provide machines for rent by customers. Income for the rental of equipment is recognized on a straight-line basis over the rental term. Rental income and product sales are classified in revenues in the consolidated statements of operations.

- *Accounts Receivable Valuation.* We perform various analyses to evaluate accounts receivable balances and record an allowance for bad debts based on the estimated collectibility of the accounts such that the amounts reflect estimated net realizable value. If actual uncollectible amounts significantly exceed the estimated allowance, our operating results would be significantly and adversely affected.

- *Inventory Valuation.* We value our inventory at the lower of our actual cost or the current estimated market value. We regularly review inventory quantities on hand and inventory commitments with suppliers and record a provision for excess and obsolete inventory based primarily on our historical usage for the prior twenty-four month period. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated change in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.

- *Product Warranties.* Our products are generally sold with a twelve month warranty provision that requires us to remedy deficiencies in quality or performance of our products at no cost to our customers only after it has been determined that the cause of the deficiency is not due to the actions of the machine operator or product used in the machine. We have established a policy for replacing parts that wear out or break prematurely. The policy called for replacing the parts or repairing a machine within one year of the sale. Commencing in May of 2006, we amended our warranty by limiting to a period of 90 days our warranty coverage on certain critical wear items. We are now selling more advanced processor production systems than past years that may require more costly parts. We maintain a warranty reserve in the amount of $71,000 which we believe to be adequate as of June 30, 2008.

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Results of Operations

Three Months Ended June 30, 2008 vs. June 30, 2007

Revenues

Total revenues for the three months ended June 30, 2008 were approximately $4,374,000, as compared to revenues of $3,557,000 for the comparable prior year period, an increase of approximately $817,000, or 22.9.%.

North American sales for the three months ended June 30, 2008 decreased to approximately $1,430,000, or 28.9% as compared to sales of approximately $2,011,000 for the three months ended June 30, 2007. The decrease in North American sales was principally due to a decrease in the sale of machines of approximately $766,000, offset in part by an increase in the sale of spare parts of $185,000. Due to the nature of the sale of capital equipment, one specific quarter can be impacted by the timing of the sale of one or more production machines.

The increase in the sale of spare parts was due to a customer extending their original shipping schedule from its original conclusion date in December 2007, to a new conclusion date in June 2008. This resulted in spare parts purchases of approximately $232,000 for the quarter ended June 30, 2008.

Foreign sales were approximately $2,944,000 for the three months ended June 30, 2008, compared to $1,546,000 for the three months ended June 30, 2007, an increase of $1,398,000, or 90.4%. The increase in foreign sales was principally due to an increase in the sale of machines of approximately $1,304,000 and an increase in the sale of spare parts of approximately $94,000. Due to the nature of the sale of capital equipment, one specific quarter can be impacted by the timing of the sale of one or more production machines.

Cost of Goods Sold

Cost of goods sold for the three months ended June 30, 2008 was approximately $2,225,000, or 50.9% of revenue, compared to $1,453,000, or 40.8% of revenue, for the comparable prior year period.

The increase in cost of sales in absolute dollars for the three months ended June 30, 2008, reflects the overall increase in sales. The Company s major product lines have different profit margins, as well as multiple profit margins within each product line. The increase in cost of goods sold as a percentage of sales is attributable to the sale of laboratory machines in the quarter that had a higher material cost component than laboratory machines sold in past quarters, and increased sales of our custom production machines.

Research and Development Expenses

Research and development expenses for the three months ended June 30, 2008 were approximately $572,000, compared to $438,000 for the comparable prior year period, an increase of approximately $134,000, or 30.5%. The increase in research and development expenses was primarily due to an increase in planned increases in payroll and related costs of approximately $114,000 and an increase in consultants of $21,000.

Selling Expenses

Selling expenses for the three months ended June 30, 2008 were approximately $1,196,000, compared to $984,000 for the comparable prior year period, an increase of $212,000, or 21.5%. The increase is primarily attributable to planned increases in payroll and related costs of approximately $184,000, an increase in travel and entertainment of approximately $74,000 and an increase in sales meeting expense of approximately $37,000. These increases were partially offset by a decrease in commission expenses of $136,000. The significant decrease in commission expense was primary attributable to the sale of production units directly to customers that had no outside representative for the region in which the unit was sold, resulting in non-commissionable sales.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2008, were approximately $1,175,000, compared to $805,000 for the comparable prior year period, an increase of $370,000, or 45.9%.

The increase is primarily attributable to planned increases in payroll and related costs of approximately $273,000, including a one time cost of approximately $95,000 associated with the departure of an officer of the Company, an increase in consultant s costs of approximately $120,000 and travel costs of approximately $31,000. These increases were partially offset by a decrease in corporate expense of approximately $32,000.

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Interest Income and Expense

Interest expense for the three months ended June 30, 2008 was approximately $6,000 compared to $1,000 for the comparable prior year period, an increase of approximately $5,000.

Interest income for the three months ended June 30, 2008 was approximately $10,000 compared to $17,000 for the comparable prior year period, a decrease of $7,000. This decrease is due to a decrease in cash available for investment.

Income Tax Provision

For the three months ended June 30, 2008 and 2007 the Company recognized no tax benefit on the loss from operations, as the Company maintains a full valuation allowance against its deferred tax assets.

Six Months Ended June 30, 2008 vs. June 30, 2007

Revenues

Total revenues for the six months ended June 30, 2008 were approximately $7,896,000, as compared to revenues of $6,358,000 for the comparable prior year period, an increase of approximately $1,538,000, or 24.2%.

North American sales for the six months ended June 30, 2008 decreased to approximately $2,921,000, a 21.4% decrease, as compared to sales of approximately $3,718,000 for the six months ended June 30, 2007. The decrease in North American sales was principally due to a decrease in the sale of machines of approximately $825,000. Due to the nature of the sale of capital equipment, one specific quarter can be impacted by the timing of the sale of one or more production machines.

Foreign sales were approximately $4,975,000 for the six months ended June 30, 2008, compared to $2,640,000 for the six months ended June 30, 2007, an increase of $2,334,000, or 88.4%. The increase in foreign sales was principally due to an increase in the sale of machines of approximately $2,080,000 and an increase in the sales of spare parts of approximately $254,000. Due to the nature of the sale of capital equipment, one specific quarter can be impacted by the timing of the sale of one or more production machines.

Cost of Goods Sold

Cost of goods sold for the six months ended June 30, 2008 was approximately $3,834,000, or 48.6% of revenue, compared to $2,646,000, or 41.6% of revenue, for the comparable prior year period.

The increase in cost of sales in absolute dollars for the six months ended June 30, 2008, reflects the overall increase in sales. The Company s major product lines have different profit margins, as well as multiple profit margins within each product line. The increase in cost of goods sold as a percentage of sales is attributable to the sale of laboratory machines for the six months ended June 30, 2008 that had a higher material cost component than laboratory machines sold in the comparable period last year, and increased sales of our custom production machines.

Research and Development Expenses

Research and development expenses for the six months ended June 30, 2008 were approximately $1,062,000, compared to $974,000 for the comparable prior year period, an increase of approximately $88,000, or 9.0%.

The increase in research and development expenses was primarily due to planned increases in payroll and related costs of approximately $97,000 and consultant costs of approximately $20,000. These increases were partially offset by a reduction in laboratory supplies of approximately $47,000.

Selling Expenses

Selling expenses for the six months ended June 30, 2008 were approximately $2,128,000 compared to $1,808,000 for the comparable prior year period, an increase of $320,000, or 17.7%. The increase is primarily attributable to planned increases in payroll and related costs of approximately $182,000, an increase in travel and entertainment costs of approximately $87,000, consultant costs of approximately $46,000 and an increase in sales meetings costs of approximately $37,000. These increases were partially offset by a decrease in commission expense of $103,000. The increase in payroll is attributable to the hiring of a more experienced sales staff at a higher remuneration. The significant decrease in commission expense was primary attributable to the sale of production units directly to customers that had no outside representative for the region, in which the unit was sold, resulting in non-commissionable sales.

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General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2008, were approximately $2,118,000, compared to $1,483,000 for the comparable prior year period, an increase of $635,000, or 42.8%.

The increase in general and administrative expenses is principally due to planned increases in payroll and related costs of approximately $455,000, including one time costs of approximately $164,000 associated with the retirement of the Company s president and the departure of an officer of the Company, consultant costs of approximately $142,000, an increase in travel and entertainment due to new employees of approximately $76,000, and an increase in recruiting costs of approximately $19,000. These increases were partially offset by a decrease in accounting and legal professional fees of approximately $39,000 and corporate expense of approximately $24,000.

Interest Income and Expense

Interest expense for the six months ended June 30, 2008 was approximately $10,000 compared to $9,000 for the comparable prior year period, a decrease of approximately $1,000.

Interest income for the six months ended June 30, 2008 was approximately $21,000 compared to $38,000 for the comparable prior year period, a decrease of $17,000. The decrease is due to a decrease in cash available for investment.

Income Tax Provision

For the six months ended June 30, 2008 and 2007 the Company recognized no tax benefit due on the loss from operations, as the Company maintains a full valuation allowance against its deferred tax assets.

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Liquidity and Capital Resources

As of June 30, 2008, the Company had approximately $1,162,000 in cash and cash equivalents, compared to $756,000 as of December 31, 2007.

For the six months ended June 30, 2008, the Company provided cash of approximately $312,000 by a decrease in trade accounts receivables and an increase in accounts payable and accrued expenses, to fund the net loss from operations and the increase in both inventories and prepaid expenses and other assets. The increase in the accounts payable and accrued expenses was due to the Company s renegotiation of its revolving line of credit with the new lender. For the six months ended June 30, 2007, the Company used cash of approximately $363,000 due to an increase in inventories, a decrease in current liabilities, and a loss from operations, partially offset by a decrease in trade accounts receivables.

The Company used cash of $603,000 and $113,000 for investing activities for the six months ended June 30, 2008 and 2007, respectively, for the purchase of capital equipment and renovations to our Company s facilities.

The Company generated cash of $697,000 and used cash of $62,000 for financing activities for the six months ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008, the Company generated cash from the proceeds from a new revolving credit line received from Silicon Valley Bank (SVB), offset by the pay down of the line of credit from the Company s previous lender, Banknorth, N.A.

The Company used cash of $62,000 for financing activities for the six months ended June 30, 2007. Net cash used for financing activities for the six months ended June 30, 2007 were for principal payments on the term loan and capital equipment loans, partially offset by proceeds from the issuance of common stock from options exercised and proceeds from stock issued from the Employee Stock Purchase Plan.

As of June 30, 2008, the Company maintains a loan and security agreements (the Credit Facility) with Silicon Valley Bank (SVB), providing the Company with a $2,500,000, two-year revolving credit line. As of June 30, 2008, the outstanding balance due under its revolving credit line was approximately $1,012,000. As of June 30, 2007, there was no balance due under its revolving credit line and a balance of $188,000 under its term loan facility with the Company s previous lender, Banknorth, N.A.

The Company s contractual obligations as of June 30, 2008 are as follows:

	Total as of	**Payable During**		
(in thousands)	**June 30, 2008**	**Remainder of 2008**	**Payable in 2009**	**Payable in 2010**
Operating leases	$ 1,120	$ 238	$ 441	$ 441

Assuming that there is no significant change in the Company s business, recognizing the significance of large major accounts and the Company obtaining orders for large production machines, the Company believes that cash flows from operations, together with the Credit Facility, and the existing cash balances, will be sufficient to meet its working capital requirements for at least the next twelve months.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company s variable rate debt is not exposed to cash flow changes but it is exposed to prime rate changes in the event of major financial market fluctuation and the possible requirement to refinance the actual variable rate debt.

Item 4T. Controls and Procedures

The certificates of the Company s chief executive officer and chief financial officer attached as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning the Company s disclosure controls and procedures, and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4T for a more complete understanding of the matters covered by such certifications.

Disclosure Controls and Procedures

The Company s management, with the participation of the Company s chief executive officer and chief financial officer, evaluated the effectiveness of the Company s disclosure controls and procedures as of June 30, 2008. The term disclosure controls and procedures , as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions to be made regarding required disclosure. It should be noted that any system of controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met and that management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company s disclosure controls and procedures as of June 30, 2008, the Company s chief executive officer and chief financial officer concluded that, as of such date, the Company s disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes to the Company s internal control over financial reporting during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any material legal proceedings.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase our common stock. If any of these risks or uncertainties occurs, our business, financial condition or operating results could be materially harmed. In that case the trading price of our common stock could decline and you could lose all or part of your investment. The risks and uncertainties described below are not the only ones we may face, although they reflect the risks that management believes are material at this time.

We believe that this filing contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to regulatory risks and clinical uncertainties. Such statements are based on management s current expectations and are subject to facts that could cause results to differ materially from the forward-looking statements. For further information you are encouraged to review our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2007. We assume no continuing obligation to update the information contained in this filing.

We have experienced operating losses from continuing operations in two of our last five fiscal years, including the fiscal year ended December 31, 2007, and we may not be able to achieve consistent profitability in the future.

For two of the past five fiscal years, as well as the period ended June 30, 2008, we have experienced losses from continuing operations. During the six months ended June 30, 2008 and the fiscal year ended December 31, 2007, we had a net loss of $1,235,000 and $1,507,000 respectively, and it is possible that we will have a net loss in the current fiscal year as we make new investments in our business in anticipation of future growth.

Our continuing losses create substantial risks to us and our future viability, primarily as described in the following risk factor.

Our cash position has been reduced and we may confront liquidity problems.

Our liquidity, as measured by the ratio of our current assets (minus inventory) to our current liabilities, has fallen from approximately 2.6 as of December 31, 2006 and 2.3 as of December 31, 2007 to approximately 1.0 as of June 30, 2008. This change is primarily due to increases in drawings under our revolving line of credit and increases in our accounts payable. Although management believes that our cash position, together with our recently increased bank financing arrangements, should be sufficient to address our liquidity needs, there can be no assurance that we will not confront liquidity issues if revenues do not increase and we return to profitability.

Management has committed to investing in the growth of our business, particularly with regard to making investments in sales and marketing. Those investments are likely to draw down our cash in advance of us receiving the additional revenues anticipated from such investments. As a result, if revenues do not increase as anticipated, or revenues are delayed beyond expectations, we could confront liquidity problems of varying degrees.

Our credit facility is comprised of a revolving line of credit in the maximum principal amount of $2,500,000 under which we owed approximately $1,012,000 at June 30, 2008.

As described above, we have a $2,500,000 revolving line of credit that is necessary to fund our liquidity needs from time to time under which we owed $1,012,000 at June 30, 2008. We are limited in our ability to acquire property and pay dividends, and we must maintain certain financial covenants as discussed in Liquidity and Capital Resources and Note 13 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for the period ended June 30, 2008. Our ability to operate is potentially impacted by our ability to achieve future compliance with the financial covenants of the credit facility.

In the event of a breach of the covenants or events of default under the credit facility, there can be no assurance that we can obtain a waiver of such breach or default from the lender. Likewise, in the event that we cannot affect a cure or obtain a waiver of a breach or default under the credit facility there can be no assurance either that the lender will not terminate the credit facility or that we will be able to obtain alternate financing, either at all or on terms that are favorable to us. Either event could have a material adverse effect on our business, financial condition, or results of operations.

We face intense competition in many of our markets.

Our Microfluidizer product line of high-shear fluid processors has direct competition in its major markets, including its most important markets in the pharmaceutical, biotechnology and coatings/chemical industries. The severity of the competition that we confront requires that we continuously invest in research and development in order to keep our product line competitive. Despite such expenditures, however, there can be no assurance that we will be able to meet the enhancement challenges posed by our competitors, or that we will be able to create or exploit the kinds of innovations, such as our Microfluidics Reaction Technology, needed to drive future sales.

In addition, we face, and will continue to face, intense competition from other companies who manufacture and sell fluid processing systems used in particle size reduction, mixing, milling, dispersing, homogenizing, cell disruption and liposomal encapsulation applications. We expect competition to intensify in the fluid processing systems field as technical advances are made and become more widely known, and such increased competition may have a material adverse effect upon our business.

Our future success will depend in large part on our ability to maintain a technologically superior product line. Rapid technological development by us or others may result in our products or technologies becoming obsolete before we recover the expenses we incur in connection with their development. Products offered by us could be made obsolete by less expensive or more effective technologies. There can be no assurance that we will be able to make the enhancements to our technology necessary to compete successfully with newly emerging technologies.

We may experience uncertain economic trends that adversely impact our business.

We may experience in the future reduced demand for our products as a result of the uncertainty in the general economic environment in which our customers and we operate. We cannot project the extent of the impact of the economic environment specific to our industry. If economic conditions worsen or if an economic slowdown occurs, we may experience a material adverse effect on our business, operating results and financial condition.

We rely on suppliers, vendors and subcontractors.

We do not manufacture most of the components contained in our Microfluidizer materials processor equipment, but rather subcontract the manufacture of most components. Based on quality, price, and performance, we have selected certain suppliers, vendors, and subcontractors that provide parts, subassemblies, machining and finishing of components that are assembled by our production staff. Although we have identified alternate sources for such parts, components, machining and finishing, there can be no assurance that a transition to such alternative sources would not entail quality assurance and quality control difficulties, on-time delivery problems, or other transitional problems, any or all of which could have an impact on our production of equipment and could have a material adverse effect on our business, financial condition, or results of operations.

We face substantial concentration of our accounts receivable

Two customers accounted for an aggregate of 42.4% of our revenues for the three months ended June 30, 2008.

Historically, our largest single customer was the Japanese distributor of our Microfluidizer processor equipment and spare parts, which accounted for 3.2% of our revenues for the three months ended June 30, 2008 and 4.2% of our revenues for the three months ended June 30, 2007.

Two customers accounted for 42.4% of our revenues for the three months ended June 30, 2008, and the same customers did not have a significant percentage of our revenues for the three months ended June 30, 2007.

Although we are unaware of any plans by any of these customers to reduce their business with us, the loss of any one or more of these customers would be highly problematic for us, and would likely cause a material change in our near-term, and possibly long-term, financial prospects. In addition, a reduction or delay in orders from any of these customers could have a material adverse effect on our results of operations.

As of June 30, 2008, 14.9% and 13.2% of our trade accounts receivable were due from two customers, respectively, both of which are long-established customers of the Company and neither of which has presented credit issues in the past.

Nevertheless, if either or both of these customers were to default on their obligations to us such default would likely cause a material change in our near-term, and possibly long-term, financial prospects.

Many of our current and potential customers are from the pharmaceutical and biotechnology industries and are subject to risks faced by those industries.

We derive a substantial portion of our revenues from pharmaceutical and biotechnology companies. We expect that pharmaceutical and biotechnology companies will continue to be one of our major sources of revenues for the foreseeable future. As a result, we are subject to risks and uncertainties that affect the pharmaceutical and biotechnology industries, such as pricing pressures as third-party payers continue challenging the pricing of medical products and services, government regulation, ongoing consolidation and uncertainty of technological change, and to reductions and delays in research and development expenditures by companies in these industries.

In particular, the biotechnology industry is dependent on raising capital to fund operations. If biotechnology companies are unable to obtain the financing necessary to purchase our products, our business and results of operations could be materially adversely affected. As it relates to both the biotechnology and pharmaceutical industries, many companies have significant patents that have expired or are about to expire, which could result in reduced revenues for those companies. If pharmaceutical companies suffer reduced revenues as a result of these patent expirations, they may be unable to purchase our products, and our business and results of operations could be materially adversely affected.

In addition, we are dependent, both directly and indirectly, upon general health care spending patterns, particularly in the research and development budgets of the pharmaceutical and biotechnology industries, as well as upon the financial condition and purchasing patterns of various governments and government agencies. Many of our customers, including universities, government research laboratories, private foundations and other institutions, obtain funding for the purchase of products from grants by governments or government agencies. There exists the risk of potential decrease in the level of governmental spending allocated to scientific and medical research, which could substantially reduce or even eliminate these grants. If government funding necessary to purchase our products were to decrease, our business and results of operations could be materially adversely affected.

We have only one manufacturing facility.

We have a single manufacturing facility located in Newton, Massachusetts. Our success depends on the efficient and uninterrupted operation of that facility. Whether as a result of a fire, natural disaster, or other cause, any disruption to our manufacturing operations would significantly impair our ability to operate our business on a day-to-day basis. Although we maintain business interruption insurance, our business would be injured by any extended interruption of the operations of our manufacturing facility. Further, although we carry property and business interruption insurance, our coverage may not be adequate to compensate us for all losses that may occur. This insurance may not continue to be available to us. Finally, if we seek to replicate our manufacturing operations at another location, we will face a number of technical as well as financial challenges, which we may not be able to address successfully.

We rely on our trade secrets to protect our technology.

Our Microfluidizer processor equipment method patent expired on March 13, 2007 and our device patent expired on August 6, 2002. In addition, we have neither sought patent protection for our Microfluidizer processor or our interaction chamber nor trademark protection of our Microfluidizer trade name in any country other than the United States. As such, our proprietary rights are not subject to the protection of patent or trademark laws of foreign countries where our equipment is sold. Although we have made many alterations, improvements and advances to our equipment over the years and continues to make such advancements with such modification and innovations having been and being treated by us as trade secrets, the lack of our patent protections will expose us to potential competition that would likely have a material adverse effect on us.

To protect our proprietary rights, we rely on a combination of trademark laws, trade secrets, confidentiality agreements, contractual provisions and technical means. In the event of a breach of these protections, there can be no assurance that these measures will prove to have been adequate to protect our interests, or that we will have sufficient resources to prosecute or prevail in an action against a third party.

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We may be subjected to increased government regulation which could affect our ability to sell our products outside of the United States.

Although United States governmental restrictions on technology transfer, import, export and customs regulations and other present local, state or federal regulation, have not had a significant effect on us historically, any future legislation or administrative action restricting our ability to sell our products to certain countries outside the United States could significantly affect our ability to make certain foreign sales. The extent of adverse governmental regulation, which might result from future legislation or administrative action, cannot be accurately predicted. In particular, the USA Patriot Act and other governmental regulations may impose export restrictions on sale of equipment or transfer of technology to certain countries or groups. There can be no assurance that sale of our equipment will not be impacted by any such legislation or designation. Depending upon which countries and sales may be designated for trade restriction such action could have a material adverse effect on our business, financial condition, or results of operations. Also, certain agreements that may be entered into by us involving exclusive license rights may also be subject to national or supranational antitrust regulatory control, the effect of which cannot be predicted.

We rely on our top management and technical personnel.

Our continued operation, innovation and growth are to some significant degree reliant on the continued services of our executive officers and leading technical personnel. There can be no assurance that we will be able to retain such management and technical personnel if employment is offered by other companies better able to pay higher compensation, provide more and better benefits, or willing to offer longer term job security by entering into employment contracts with our employees. Further, there can be no assurance that key executive officers and leading technical personnel will not leave our employment or either die or become disabled to an extent that they cannot render their services to us. Though we believe that we can identify and recruit replacement key management and technical personnel, there can be no assurance as to such availability, the length of time required to obtain such replacement management and technical personnel, the salary level that may have to be paid to obtain their respective services, or the impact on operations that may be experienced through the interim absence of such key management and technical personnel. The loss of our top management or leading technical personnel could, therefore, have a material adverse effect on our business, financial condition, or results of operations.

Our stock is listed on the OTC Bulletin Board and our stockholders may have limited liquidity.

Our common stock is quoted on the OTC Bulletin Board, which provides significantly less liquidity than a securities exchange (such as the American or New York Stock Exchanges or The Nasdaq Stock Market). In general, over the past two years, fewer than 20,000 shares of our common stock have traded on a daily basis.

Our quarterly revenues and stock performance are variable.

The timing of orders and subsequent shipment will significantly affect quarterly revenues and resulting net income results for particular quarters which may cause increased volatility in both our revenues and stock price.

We allow our customers to lease some of our products and those leases may not turn into sales.

We sometimes lease our products to our customers prior to or instead of selling a product to a customer. Our products are expensive, and customers frequently want to test out a product s capabilities prior to purchase. We have had reasonable success in converting leases into subsequent sales of the same or a newer product; however, there is no guarantee that we will continue to be able to convert any of our leases into sales.

We may be subject to product liability claims from our customers or by persons harmed by our customers products.

We maintain what we deem to be reasonable levels of product liability coverage through insurance policies with a reasonably small deductible. Nonetheless, inasmuch as we sell our equipment to a number of customers who make pharmaceutical preparations and consumer cosmetics, there can be no assurance that if a consumer of end products is injured or dies from such product that a suit by an injured party (or a class of similar situated plaintiffs) will not include us as well as the maker of the drug or cosmetic. Although we may have no control over the manufacture of end-products made on our equipment, we may not be able to bar a plaintiff s claims against all parties whose products and equipment were involved in the manufacturing process under a variety of legal theories of liability. We may be required to present a vigorous and costly defense if we cannot be dismissed from such an action. The cost of such legal defense may significantly impact our cash flow.

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Our international business operations expose us to a variety of risks.

For the three months ended June 30, 2008 and 2007, shipments outside of North America accounted for approximately 67.3% and 43.5%, respectively, of our net revenues in those periods.

In particular, approximately 3.2% and 4.2% of our net revenues in the three months ended June 30, 2008 and 2007, respectively, resulted from sales to Japan and approximately 3.9% and 6.7% of our net revenues in the three months ended June 30, 2008 and 2007, respectively resulted from sales to Korea.

In addition, approximately 58.0% and 26.5% of our net revenues resulted from sales to Europe in the three months ended June 30, 2008 and 2007, respectively. We expect that shipments outside of North America will continue to account for a significant portion of our total net product revenues.

We attempt to reduce some of our risk related to sales and shipments outside of the United States by requiring that our contracts generally be paid in United States Dollars. Nevertheless, a downturn in the economies of Japan, Korea or Europe might reduce investment in new technology or products while a weakening of foreign currency against the United States Dollar would make our products more expensive, each of which could have a substantial impact on our operating results.

In addition, a significant portion of our total net revenue is subject to the risks associated with shipping to foreign markets in general, including unexpected changes in legal and regulatory requirements; changes in tariffs; political and economic instability; risk of terrorism; difficulties in managing distributors and representatives; difficulties in protecting our intellectual property overseas; and natural disasters, any of which could have a negative impact on our operating results.

We may experience difficulties in the future in complying with Sarbanes-Oxley Section 404 (Section 404   ); and continued implementation and maintenance of internal controls necessary for continued compliance with Section 404 may result in our incurring of additional costs.

We are required to evaluate our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002. We were also required to furnish a report by our management on our internal controls over financial reporting beginning with our annual report on Form 10-K for the fiscal year ended December 31, 2007. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. While we have completed our self-assessment as to the effectiveness of internal control over financial reporting for the year ended December 31, 2007, which did not identify material weaknesses in our internal control systems, there can be no assurance that future material weaknesses in our internal control systems will not be identified as a result of changing financial or operating conditions. In addition, although we are currently not required to subject our internal controls to audit by our independent registered public accounting firm until at least our fiscal year ending December 31, 2009, there can be no assurance that an audit of our internal controls will not result in the identification of a material weakness. If we fail to maintain proper and effective internal controls in future periods, it could adversely affect our operating results, financial condition and our ability to run our business effectively and could cause investors to lose confidence in our financial reporting. In the event that it is determined that our internal control over financial reporting is not effective, as defined under Section 404, investor confidence in us may be adversely affected and could cause a decline in the market price of our stock.

Future changes in financial accounting standards may adversely affect our reported results of operations.

A change in accounting standards can have a significant effect on our reported financial results. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. These new accounting pronouncements may adversely affect our reported financial results.

If our accounting estimates are not correct, our financial results could be adversely affected.

Management judgment and estimates are necessarily required in the application of our Critical Accounting Policies. We discuss these estimates in the subsection entitled Critical Accounting Policies beginning on page 14. If our estimates are incorrect, our future financial operating results and financial condition could be adversely affected.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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Item 4. Submission of Matters to a Vote of Security Holders

On June 17, 2008, the Company held the 2008 Annual Meeting of Stockholders at which stockholders of record as of April 24, 2008 were entitled to vote on the following matters:

(1) To elect five (5) directors to hold office until their successors shall be elected and shall have qualified;

(2) To ratify the selection of UHY LLP as the Company s independent accountants for the fiscal year ending December 31, 2008; and

(3) To amend the Company s certificate of incorporation to change the corporate name from MFIC Corporation to Microfluidics International Corporation.

As of April 24, 2008, the record date, there were 10,267,981 shares eligible to vote. As of June 17, 2008, votes representing 9,099,487 shares were cast. A majority of the stockholders voted in favor of and a motion was made approving the nomination of the directors, ratification of the independent accountants and amendment of the certificate of incorporation to change the Company s name. The results of the votes are as follows:

Proposal No. 1 - Election of Directors:

	For	**Withheld**
Michael C. Ferrara	8,791,617	307,870
James N. Little	6,061,844	3,037,643
Leo Pierre Roy	6,615,711	2,483,776
George Uveges	6,794,511	2,304,976
Eric G. Walters	8,346,756	752,731

Proposal No. 2 - Ratification of Independent Accountants:

	For	**Against**	**Abstain**
UHY LLP to serve as independent accountants for the fiscal year ending December 31, 2008	8,844,362	152,114	103,011

Proposal No. 3 - To change the Company s name :

Amend the Company s certificate of Incorporation to change the corporate name from MFIC Corporation to Microfluidics International Corporation.

For	**Against**	**Abstain**
9,046,329	32,267	20,891

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibits

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

MICROFLUIDICS INTERNATIONAL

CORPORATION

By: /s/ Michael C Ferrara
Michael C Ferrara
President and Chief Executive Officer

By: /s/ Brian E. LeClair
Brian E. LeClair
Executive Vice-President and Chief Financial Officer

Dated: August 12, 2008