MFIC CORP
Form SB-2/A
May 12, 2006
As filed with the Securities and Exchange Commission on May 12, 2006

Registration Statement No. 333-132895

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Amendment No. 1

to

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MFIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-2793022**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

30 Ossipee Road, P.0. Box 9101, Newton, Massachusetts, 02464-9101, (617) 969-5452

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Irwin J. Gruverman
Chairman of the Board of Directors, Chief Executive Officer, Treasurer and Secretary
30 Ossipee Road, P.0. Box 9101, Newton, Massachusetts 02464-9101, (617) 969-5452

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to public:
As soon as practicable after the effectiveness of Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Share**	**Proposed Maximum Aggregate Offering Price**	**Registration Fee(2)**
Common Stock issuable upon exercise of investor warrants	100,000	$3.20	$320,000.00	$34.24
TOTAL	100,000		$320,000.00	$34.24

(1) The number of shares being registered represents our good faith estimate of the maximum number of shares we may issue upon exercise of common stock purchase warrants. The actual number of shares of common stock received upon exercise of the warrants may vary from this number.

(2) Previously paid.

The Company hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Company shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), shall determine.

Subject to Completion, dated May 12, 2006

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not a solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.

MFIC CORPORATION

100,000 Shares of Common Stock

This Prospectus covers the sale of 100,000 shares of our common stock by the Selling Stockholder upon the exercise of an outstanding warrant (the Warrant). We will receive gross proceeds of $320,000.00 if the Warrant is exercised in full for cash by the Selling Stockholder. The Selling Stockholder, however, is under no obligation to exercise the Warrant. We will not receive any proceeds from the resale of any common stock by the Selling Stockholder. See page 14 of this prospectus for the name of the Selling Stockholder.

We are registering these shares by filing a registration statement with the Securities and Exchange Commission using a shelf registration process. This process allows the Selling Stockholder to sell its common stock over a period of time in varying amounts as described under Plan of Distribution on page 9 of this Prospectus.

Our Common Stock is traded on the over the counter bulletin board (OTCBB) under the symbol MFIC. On May 8, 2006, the closing sale price of our Common Stock on the OTCBB was $1.42 per share.

Investing in our securities involves risks. See Risk Factors on page 5.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless it is accompanied by a prospectus supplement.

Prospectus dated , 2006.

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PROSPECTUS SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that may be important to you. You should read the entire prospectus carefully, including the section entitled Risk Factors, and our Consolidated Financial Statements and the related Notes to those statements included in this prospectus. This prospectus contains certain forward-looking statements. The cautionary statements made in this prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this prospectus. Our actual results could differ materially from those discussed in this prospectus. See Cautionary Note Regarding Forward-Looking Statements.

MFIC CORPORATION

MFIC Corporation (MFIC or the Company) has, for over 20 years, specialized in manufacturing and marketing a broad line of high shear fluid processing systems used in numerous applications in the chemical, pharmaceutical, biotech, food and cosmetics industries.

MFIC s line of high shear fluid processor equipment, marketed under the Company s Microfluidizer® trademark and trade name, create nanoparticles (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, the Company commercializes its proprietary equipment, processes and technology for the continuous creation of nanoparticles. The Company has undertaken commercialization efforts for its patented Microfluidizer Mixer/Reactor (MMR), which is a high pressure multiple stream mixer/reactor.

The Company s technology embodied within its Microfluidizer high shear fluid processing technology is used for formulation of products that are normally very difficult to mix and stabilize. Microfluidizer processors 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. 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.

The Company s management believes that future commercialization and growth of nanotechnology may be, in large part, enabled by the manufacturing capability of the Company s materials processor and MMR equipment. Further, the Company guarantees scaleup of formulations and results on its processor equipment from 10 milliliters per minute on its laboratory and benchtop models to more than 15 gallons per minute on its pilot and production models.

The Company was 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. Until its sale on February 9, 2004, the Company also operated another division, known as the Morehouse-COWLES Division, which manufactured and sold a broad line of mechanical fluid materials processing systems used for a variety of dispersing, milling, and blending applications across a variety of industries. The Morehouse-COWLES Division manufactured and distributed high shear dispersers, dissolvers, colloid mills, horizontal media mills, vertical media mills, and sold grinding media for such equipment. The Company s principal executive offices are located at 30 Ossipee Road, in Newton, Massachusetts, 02464-9101 and its telephone number is (617) 969-5452. Our web site is located at *www.mficcorp.com*. We have not incorporated by reference into this prospectus the information on our web site and you should not consider it to be a part of this document. Our web site address is included in this document as an inactive textual reference only. Unless the context otherwise requires, the terms MFIC, Company, we, us and our refer to MFIC Corporation and its subsidiary.

The Offering

Common Stock Offered by the Selling Stockholders:	100,000
Common Stock Outstanding Before this Offering	9,967,345
Common Stock to be Outstanding after this Offering (assumes the full Warrant for 100,000 shares of common stock offered hereby are exercised by the Selling Stockholder):	10,067,345
Use of Proceeds from Sale of Common Stock:	We will not receive any proceeds from the sale of the shares of our Common Stock offered by the Selling Stockholder.
Use of Proceeds from Exercise of Warrant:	We will receive the exercise price of the Warrant if it is exercised by the Selling Stockholder. We intend to use any proceeds from exercise of the Warrant for working capital and general corporate purposes.

RISK FACTORS

Investing in our securities involves risk. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus. The risks and uncertainties we have described are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations.

The Company faces a number of risks and uncertainties that could cause actual results or events to differ materially from those contained in any forward looking statement. Additional risks and uncertainties not presently known to the Company or that are currently deemed to be immaterial may also impair the Company s business operations. Factors that could cause or contribute to such differences include, but are not limited to, the following:

The Company faces 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. There are a few small, direct competitors in geographical areas where our patents are not protected. The Company does not believe that these competitors, however, offer product lines of comparable breadth or scope as our products and the Company does not believe that they possess high-pressure engineering experience to the extent that the Company does. The Company does not regard the presence of these competitors as an impediment to our growth.

In addition, the Company faces, 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. The Company expects 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.

The Company is subject to significant competition from companies that are pursuing technologies and products that are similar to the Company s technology and products.

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

The Company relies on suppliers, vendors and subcontractors.

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

The Company has only one manufacturing facility.

The Company has only one manufacturing facility located in Newton, Massachusetts. Our success depends on the efficient and uninterrupted operation of our manufacturing facility. Whether as a result of a fire, terrorist attack, natural disaster or other causes, any significant disruption, up to and including substantial destruction, would disrupt our manufacturing operations and significantly impair our ability to operate our business on a day-to-day basis. Although the Company maintains business interruption insurance, our business would be injured by any extended interruption of the operations of our manufacturing facility. Further, although the Company carries 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 the Company. Finally, if the Company seeks to replicate our manufacturing operations at another location, the Company will face a number of technical as well as financial challenges, which the Company may not be able to address successfully.

The Company relies on patents and trade secrets to protect our technology.

To protect its proprietary rights, the Company relies on a combination of U.S. patent and trademark laws, trade secrets, confidentiality agreements, contractual provisions and technical means. In the event of patent infringement or breach of confidentiality, there can be no assurance that these measures will be adequate or that the Company will have sufficient resources to prosecute or prevail in an action against a third party.

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

To protect its other proprietary rights, the Company relies 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 the Company s interests, or that the Company will have sufficient resources to prosecute or prevail in an action against a third party. The Company maintains confidentiality and non-competition agreements with those parties to whom it discloses non-public technical information relating to its equipment. The Company believes that enforcement of the provisions of such agreements should adequately protect the Company s proprietary information. However, in the event of a material breach of such agreements, certain of the Company s valuable intellectual property may be disclosed to third parties (including competitors). In such event, despite provisions for equitable relief and damages in the event of such breaches, the Company may suffer competitively and be materially impacted as a result of such unauthorized disclosure.

In 1997, the Company completed development of a novel adaptation of its Microfluidizer® equipment a Multiple Stream High Pressure Mixer/Reactor (MMR). In August 1997, the Company filed a patent application for the device and its processes with the United States Patent and Trademark Office (USPTO), and filed a Patent Cooperation Treaty (PCT) application on May 5, 1998. In July and November 2000, the USPTO issued to the Company notices of allowances of utility patent claims regarding the MMR and the use thereof. On September 18, 2002, the European Patent Office advised the Company it would grant its MMR patent substantially as applied for, including its device and process

claims. The Company is in the process of pursuing national entry in France, Germany, Italy, The Netherlands, and the United Kingdom.

The Company must continue its research and development efforts to maintain competitive.

The Company s research and development efforts are focused on: (i) developing new processing applications for the process industries and further enhancing the functionality, reliability and performance of existing products, and (ii) development of the Multiple-Stream High Pressure Mixer/Reactor (MMR) by: (a) working with customers who assist in the development of the system with both application knowledge and financial support, and (b) internal development program relating to interaction chamber design and creation of a variety nanomaterials. There can be no assurance that the Company will be able to meet the enhancement challenges posed by applications of its core Microfluidizer® processor business. Likewise there can be no assurance that the Company will be able to design and manufacture chambers for its MMR applications that will deliver the desired result for specific applications. The inability to meet the enhancement challenges or design and manufacture chambers for its MMR applications may have a material adverse effect on the Company.

The Company s ability to continue planned operations is dependent upon access to financing under a credit facility with its commercial lender.

The Company s credit facility is comprised of a revolving line of credit in the maximum principal amount of $1,000,000 and a term loan note in a face amount of $1,000,000 under which the Company currently owes approximately $563,000 at December 31, 2005. Under the terms of the credit facility, the Company is subject to a number of restrictions that impact the Company s use of funds. The Company is limited in ability to acquire property and pay dividends, and it must maintain certain financial covenants as defined. The Company s ability to operate is potentially impacted by the Company s ability to achieve future compliance with the financial covenants of the credit facility. The obligations due the lender are essentially demand obligations and under certain circumstances, including the lender s determination that the Company s prospect of payment of all or any part of the obligations due the lender are impaired, the lender may declare a default and accelerate payment of the obligations. Loans under the credit facility are secured by a collateral pledge to the lender of substantially all the assets of the Company and its subsidiary. In the event of a breach of the covenants or events of default under the credit facility there can be no assurance that the Company can obtain a waiver of such breach or default from its lender. Likewise, in the event of that the Company cannot effect 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 the Company will be able to obtain alternate financing, or that it can obtain alternate financing on terms that are favorable to the Company. Either event could have a material adverse effect on the Company s business, financial condition, or results of operations.

Pursuant to its agreements with the lender, the Company may not issue, create or incur additional debt in excess of its obligations to lender, except in the ordinary course of business.

There can be no assurance that 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 comply with the covenants and terms of the Company s loan agreement with its senior lender.

The Company may become subject to increased government regulation which could affect our ability to sell our products outside of the United States.

Although the Company has not historically been significantly affected by any United Sates governmental restrictions on technology transfer, import, export and customs regulations and other present local, state or federal regulation, 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 regulation 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 the Company s 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 the Company s business, financial condition, or results of operations. Also, certain agreements that may be entered into by the Company involving exclusive license rights may also be subject to national or supranational antitrust regulatory control, the effect of which cannot be predicted.

The Company relies on our key management and technical personnel.

The Company s continued operation, innovation and growth are to some significant degree reliant on the continued services of its key executive officers and leading technical personnel. The Company does not maintain employment contracts with its key management or leading technical personnel. There can be no assurance that the Company will be able to retain such key 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 the Company s employees. Further, there can be no assurance that key executive officers and leading technical personnel will not either die or become disabled to an extent that they cannot render their services to the Company. Though the Company believes that it 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 key management or leading technical personnel could, therefore, have a material adverse effect on the Company s business, financial condition, or results of operations.

The Company s stock is listed on the OTC Bulletin Board and stockholders may have limited liquidity.

The Company s 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 LLC). In general, over the past two years, fewer than 100,000 shares of our common stock have traded on a daily basis. Management expects, when and if the Company qualifies, to seek a listing on a securities exchange, which may increase stockholders liquidity. There is uncertainty that the Company will ever be accepted for a listing on a securities exchange.

The Company anticipates that shipments of our products to relatively few customers will continue to account for a significant portion of our business.

Sales to our Japanese distributor accounted for 19.5% of our net revenues in 2005 and 20.5% of our revenues in 2004 and sales to a wholly owned subsidiary of Teva Pharmaceuticals accounted for 18.9% of our revenues in 2005 and 12.8% of our revenues in 2004. The Company expects that a limited number of customers may continue to account for a substantial portion of our net revenues for the foreseeable future. If our current customers delay or cancel their orders, or find other sources for our products, our resulting net income may be impacted.

Although the Company attempts to maintain good relationships with our current customers, the Company cannot be certain that our current customers will continue to place orders with us or that those orders will be significant. The Company continuously seeks out new customers, but there can be no certainty that the Company will receive orders from new customers or that those new customers will continue to order from us.

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 the Company s revenues and stock price.

The Company allows 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. The Company s 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.

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

The Company maintains what it deems to be reasonable levels of product liability coverage through insurance policies with a reasonably small deductible. Nonetheless, inasmuch as the Company sells its 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 sue the Company as well as the maker of the drug or cosmetic. Although the Company may have no control over the manufacture of end-products made on its equipments, it may not be able to bar a plaintiff s claims against all parties who products and equipment were in involved in the manufacturing process under a variety of legal theories of liability. The Company may be required to present a vigorous and costly defense if it cannot be dismissed from such an action. The cost of such legal defense may significantly impact the cash flow of the Company.

The Company s international business operations expose us to a variety of risks.

For the year ended December 31, 2005, shipments outside of North America accounted for approximately 48.2% of the Company s total net revenues as compared to 48.9% in the prior year. In particular, approximately 19.5% and 20.5% of our net revenues in 2005 and 2004 resulted from sales to Japan and approximately 12.1% and 4.8% of our net revenues in 2005 and 2004 resulted from sales to Korea. In addition, approximately 13.0% and 17.9% of our net revenues resulted from sales to Europe in 2005 and 2004 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 across 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.

Changes in accounting treatment of stock options could adversely affect our operating results.

The Financial Accounting Standards Board has announced its decision to require companies to expense employee stock options in accordance with SFAS 123R, *Accounting for Stock-Based Compensation*, or SFAS 123R, for financial reporting purposes. Such stock option expensing would require us to value our employee stock option grants pursuant to an option valuation model, then amortize that value against our reported earnings over the vesting period in effect for those options.

Prior to January 1, 2006, the Company elected to accelerate all outstanding employee stock options (except those employee stock options held by employees who chose not to participate) to minimize the impact of SFAS 123R on its operating results**.** The Company estimated that by accelerating the vesting of the employee options, it would not incur approximately $400,000 of future compensation expense, net of taxes. In general, the Company issues stock options to certain of its employees (except for senior management) every two years and does not anticipate issuing options to a large number of employees until 2008. Nevertheless, all options issued on or after January 1, 2006 must be expensed in accordance with SFAS 123R. The impact of SFAS 123R on our financial results will depend on a variety of factors, including the number of options issued, the length of time until vesting and the amount required to be expensed. The Company has determined that there will be a non-cash charge of approximately $129,000 in 2006 as a result of this requirement.

Compliance with internal controls reporting requirements could increase our costs.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the Company s internal control over financial reporting in their annual reports on Form 10-K. This report is required to contain an assessment by management of the effectiveness of such company s internal controls over financial reporting. In addition, the public accounting firm auditing a public company s financial statements must attest to and report on management s assessment of the effectiveness of the company s internal controls over financial reporting. We intend to expend resources in developing the necessary documentation and testing procedures required by Section 404. Going forward, there is a risk that we will not comply with all of the requirements imposed by Section 404. If the Company fails to implement required new or improved controls, we may be unable to comply with the requirements of Section 404 in a timely manner. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of the Company s financial statements, which could cause the market price of the Company s common stock to decline and make it more difficult for the Company to finance its operations.

Under current rules, the Company is required to comply with the requirements of Section 404 by its first fiscal year ending on or after July 15, 2007.

The issuance of shares of Common Stock pursuant to this registration statement will have a dilutive effect on the Company s Common Stock and your ability to sell your shares in the market is not assured.

The shares of Common Stock issuable upon exercise of the Warrant are dilutive to the current outstanding and issued shares of Common Stock and such issuance may have an adverse effect on the public trading price of our Company s Common Stock. Although the Company has agreed to register the Common Stock issuable upon exercise of the Warrant, there can be no assurances that such registration statement will become effective or, if it becomes effective, whether the Company will be able to maintain the effectiveness of such registration statement.

Management has discretion as to the use of proceeds.

The net proceeds from the exercise of the Warrant will be used as described under Use of Proceeds. The Company reserves the right to use the funds obtained from the exercise of Warrant for other purposes

not presently contemplated which the Company deems to be in their best interests and its stockholders in order to address changed circumstances and opportunities. These additional uses may include, without limitation, the use of funds for repayment of debt. As a result of the foregoing, our success may be affected by the judgment of our management with respect to the application and allocation of the net proceeds from the exercise of Warrant.

The market for lower-priced securities has suffered in recent years from patterns of fraud and abuse and is regulated in a manner that may negatively impact the market for our common stock

Unless and until our Common Stock attains a price per share of $5.00 or more, our Common Stock will be subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell our securities to persons other than established clients or accredited investors. For purposes of this rule, the phrase accredited investors means, in general terms, institutions with assets in excess of $5,000,000, or individuals having a net worth in excess of $1,000,000 or having an annual income that exceeds $200,000 (or that, when combined with a spouse s income, exceeds $300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser s written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our Common Stock and also may affect the ability of our current stockholders to sell their securities in the market. In addition, the Securities and Exchange Commission has adopted a number of other rules to regulate penny stocks. Depending on the trading price of our Common Stock, our Common Stock may constitute a penny stock within the meaning of those rules, which could further affect the ability of investor in this Offering to sell our securities in the market.

Prospective investors should also be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. We can provide no assurance that such tactics will not be employed in connection with the market for our Common Stock.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

The prospectus, any prospectus supplement and the documents we incorporate by reference in this prospectus contain forward-looking statements. Forward-looking statements include those regarding our goals, beliefs, plans or current expectations and other statements regarding matters that are not historical facts. For example, when we use words such as project, believe, anticipate, plan, expect, estimate, intend, would, could, or may, or other words that convey uncertainty of future events or outcome, we are making forward-looking statements. Our forward-looking statements are subject to risks and uncertainties. You should note that many important factors, some of which are discussed elsewhere in this prospectus or in the documents we have incorporated by reference, could affect us in the future and could cause our results to differ materially from those expressed in our forward-looking statements. These important factors include the factors we identify in the documents we incorporate by reference in this prospectus. You should read these factors and the other cautionary statements made in this prospectus and in the documents we incorporate by reference as being applicable to all related forward-looking statements wherever they appear in this prospectus and in the documents

incorporated by reference. We do not undertake any obligation to update forward-looking statements made by us.

USE OF PROCEEDS

We will not receive any proceeds upon the sale of the shares by the Selling Stockholder.

We will receive the exercise price of the portion of the Warrant, if any, that is exercised by the Selling Stockholder. Assuming exercise of all the Selling Stockholder s Warrant, the gross proceeds to us would be approximately $320,000. Unless we otherwise indicate in the applicable prospectus supplement, we intend to use any proceeds from exercise of the warrants for working capital and general corporate purposes, including:

- to finance our growth;
- to develop our products; and
- for capital expenditures made in the ordinary course of business.

DETERMINATION OF OFFERING PRICE

The Selling Stockholder may sell shares in any manner at the current market price or through negotiated transactions with any person at any price.

PENNY STOCK RULES

The Company s Common Stock likely will continue to be quoted (MFIC.OB) on the OTC Bulletin Board. At least for the foreseeable future, our Common Stock will continue to be deemed to be a penny stock as that term is defined in Rule 3a51-1 under the Securities Exchange Act of 1934. Rule 15g-2 under the Exchange Act requires broker/dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain from these investors a manually signed and dated written acknowledgement of receipt of the document before effecting a transaction in a penny stock for the investor s account. Compliance with these requirements may make it more difficult for holders of our free-trading Common Stock to resell their shares to third parties or otherwise, which could have a material adverse effect on the liquidity and market price of our Common Stock. Penny stocks are stocks:

(i) with a price of less than $5.00 per share; or

(ii) that are not traded on NASDAQ or a national securities exchange; or

(iii) are issued by companies with net tangible assets of less than:

a. $2.0 million (if the issuer has been in continuous operation for at least three years); or

b. $5.0 million (if in continuous operation for less than three years); or

(iv) which have average revenue of less than $6.0 million for the last three years.

PLAN OF DISTRIBUTION

If the Warrant is exercised, the shares being offered by the Selling Stockholder will be sold from time to time in one or more transactions (which may involve block transactions):

- on the OTC Bulletin Board or on such other market on which the common stock may from time to time be trading,

- in privately-negotiated transactions,
- short sales, or
- any combination of the above.

The sale price to the public may be the market price prevailing at the time of sale, a price related to such prevailing market price, at negotiated prices or such other price as the Selling Stockholder determine from time to time. The shares may also be sold pursuant to Rule 144. The Selling Stockholder has the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The Selling Stockholder may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the Selling Stockholder and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal, or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that the Selling Stockholder will attempt to sell shares of common stock in block transactions to market makers or other purchasers at a price per share which may be below the then market price. There can be no assurance that all or any of the shares offered by this prospectus will be issued to, or sold by, the Selling Stockholder. The Selling Stockholder and any brokers, dealers or agents, upon effecting the sale of any of the shares offered by this prospectus, may be deemed underwriters as that term is defined under the Securities Act of 1933 or the Securities Exchange Act of 1934, or the rules and regulations thereunder.

The Selling Stockholder, alternatively, may sell all or any part of the shares offered by this Prospectus through an underwriter. The Selling Stockholder has not entered into an agreement with a prospective underwriter. If the Selling Stockholder enters into such an agreement or agreements, the relevant details will be set forth in a supplement or revision to this prospectus.

The Selling Stockholder and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934 and the rules and regulations thereunder, including, without limitation, Regulation M, which may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by the Selling Stockholder or any other such person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings, which could have a material adverse effect on our business. Currently, there are no pending legal proceedings.

DIRECTORS AND EXECUTIVE OFFICERS

Each director of the Company is elected annually and holds office for the ensuing year and until his successor has been elected and qualified. The names of the Company s current directors, executive officers, directors-elect and certain information about them are set forth below:

Name	Age	Title
Irwin J. Gruverman	72	Chief Executive Officer, Chairman of the Board, Treasurer and Secretary
Robert P. Bruno	68	President and Chief Operating Officer
Jack M. Swig	57	Vice President Corporate Development and General Counsel
Dennis P. Riordan	59	Controller
James N. Little	65	Director
Vincent B. Cortina	68	Director
Leo Pierre Roy	48	Director
Eric G. Walters	54	Director
George Uveges	58	Director

IRWIN J. GRUVERMAN has served as the Chief Executive Officer, Chairman of the Board of Directors and Secretary of the Company since its inception in 1983. He also currently serves as the Company s Treasurer. From the Company s inception in 1983 to June 1993, and from November 21, 2000 until May 17, 2001, Mr. Gruverman served as its President. Mr. Gruverman is a director of InVitro International, a publicly held provider of toxicity test kits, and of MicroChem Corporation, a privately held manufacturer of chemicals for electronic manufacture applications.

ROBERT P. BRUNO joined the Company on April 8, 1996 as Vice-President of Sales/Marketing. Mr. Bruno was appointed as Chief Operating Officer on November 30, 2000. Mr. Bruno was appointed as President on May 17, 2001 with such appointment becoming effective on May 21, 2001.

JACK M. SWIG joined the Company as a full time employee in January 1996 and was appointed in January 1999 as the Vice President Corporate Development and General Counsel. He has served as the Company s General Counsel and Investor Relations Manager since 1993. Mr. Swig has 25 years venture capital, corporate finance and merchant/investment banking experience.

DENNIS P. RIORDAN joined the Company on February 12, 1996 as the Controller. Mr. Riordan previously served as Controller Residential Group for Winthrop Management from May 1989 to May 1994. From June 1986 to May 1989, he served in various positions as an assistant controller at Krupp Management, a real estate concern. Prior to that, Mr. Riordan spent twelve years in public accounting, primarily as an audit manager.

JAMES N. LITTLE has served as a director of the Company since December 1995. Since December 2005, Dr. Little has served as Senior Vice President of Cetek Corporation, a position he also held from August 1998 until December 2001. From December 2001 until December 2005, he served as the President of Cetek, a biotechnology drug discovery company. From 1981 to August 1998, Dr. Little served as a Senior Vice President of Sales, Marketing and Business Development for Zymark Corporation (which was later acquired by Caliper Life Sciences), a manufacturer of scientific instrumentation. Dr. Little is a member of the Nominating, Audit and Compensation Committees of the Board of Directors.

VINCENT B. CORTINA has served as a director of the Company since May 1997. Since June 2001, Mr. Cortina has served as a principal of Corvis Associates, a management consulting firm. He is also a vice-president of Hamilton-Chase & Associates, Inc., an executive search firm. From March 1999 until May 2001, Mr. Cortina served as Director of Operations for Advanced Instruments Group, a manufacturer of laboratory and clinical instruments. Prior to that, he served as a self-employed business consultant. From 1990 to 1996 he served as President of Advanced Monitors, Inc., a company that develops and

manufactures industrial and commercial instruments. Mr. Cortina is a member of the Nominating and Corporate Governance and Compensation Committees of the Board of Directors.

LEO PIERRE ROY has served as a director of the Company since June 2000. Mr. Roy has more than 20 years of experience as a senior manager and consultant. Mr. Roy currently serves as director of environmental services at Vanasse Hangen & Brustlin, Inc. (VHB), a recognized leader in providing transportation, land development, and environmental services. Prior to joining VHB in September 2003, Mr. Roy was the Vice President and Chief Operating Officer of The Bioengineering Group, Inc., a firm engaged in consulting in the areas of erosion control, water quality, ecological restoration and bioremediation from September 2000 to September 2003. Between 1998 and 2000 he served as the President of Houqua & Company, Inc., a consulting firm specializing in strategic planning and development services. From 1997 to 1998, Mr. Roy served as President and Chief Operating Officer of Energy Answers Corporation, a designer, developer and owner of resource recovery, power, recycling and solid waste management companies. From 1992 to 1996, Mr. Roy served first as Director of Waste Policy and Planning and later as Undersecretary of the Executive Office of Environmental Affairs for the Commonwealth of Massachusetts. From 1990 to 1991, Mr. Roy was the Regional Manager of Special Projects for Waste Management, Inc. From 1985 to 1989, he was the Vice President and Chief Operating Officer of Orne Enterprises, Inc., a venture capital, environmental technology holding company. Mr. Roy is a member of the Nominating and Corporate Governance, and Audit Committees and is the Chairman of the Compensation Committee of the Board of the Directors.

ERIC G. WALTERS has served as a director of the Company since November 2005. Mr. Walters is Vice President and Chief Financial Officer of CardioTech International, Inc., a publicly traded company. Prior to joining CardioTech, Mr. Walters served as Vice President and Chief Financial Officer at Konarka Technologies, Inc., a developer of light-activated plastic (photovoltaic) material. Prior to joining Konarka, Mr. Walters served in various capacities at PolyMedica Corporation during a 13 year period, including Executive Vice President and Chief Financial Officer. Mr. Walters, a CPA, is a Member, American Institute of Certified Public Accountants, a Fellow of the Massachusetts Society of Certified Public Accountants, and a Member in Financial Executives International. Mr. Walters is the Chairman of the Audit Committee of the Board of Directors and is a financial expert on the Audit Committee.

GEORGE UVEGES has served as a director of the Company since November 2005. Mr. Uveges is the founder and principal in the Tallwood Group, an angel investing firm that provides financial and management advisory services in addition to investment capital. From 2001 to 2004, Mr. Uveges served as the President and Chief Executive Officer of TranXenoGen, Inc., a development-stage, publicly-held biotech company focused on developing new methods for manufacturing therapeutic proteins and a portfolio of products, including generics, a cancer treatment and antibodies. He was also a director of that company from 2001 to 2005. Mr. Uveges is a member of American Institute of Certified Public Accountants, Financial Executives International and the National Association of Corporate Directors. Mr. Uveges is the Chairman of the Nominating and Corporate Governance Committee. Mr. Uveges is a member of the Audit Committee and the Compensation Committee of the Board of Directors and is a financial expert on the Audit Committee. Mr. Uveges is a member of the Board of Directors of Harvard Bioscience, Inc., a publicly held developer, manufacturer and marketer of products used in life science research.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Principal Holders Of Voting Securities

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)
Irwin J. Gruverman(3) 30 Ossipee Road Newton, Massachusetts 02464	1,928,055 (3)	19.3 %
Pfizer, Inc. (4) 235 E. 42nd Street New York, NY 10017	600,000	6.0 %

(1) Information with respect to beneficial ownership is based upon information furnished by such shareholder.

(2) Shares of Common Stock that a person or entity has the right to acquire within 60 days of May 4, 2006, according to Registrar and Transfer Company, the Company s Transfer Agent, pursuant to the exercise of options are deemed to be outstanding for the purpose of computing the percentage ownership of such person or entity, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person or entity shown in the table. Percentage ownership is based on 9,967,345 shares of Common Stock issued and outstanding on May 4, 2006.

(3) Consists of (i) 419,300 shares of Common Stock, (ii) 164,876 shares of Common Stock subject to currently exercisable options, (iii) 243,879 shares of Common Stock owned jointly by Mr. Gruverman and his wife, (iv) 100,000 shares of Common Stock owned by his wife, and (v) 1,000,000 shares of restricted Common Stock. Mr. Gruverman disclaims beneficial ownership of the 100,000 shares of Common Stock owned by his wife.

(4) Information with respect to beneficial ownership is based upon information furnished by Pfizer, Inc. and G.D. Searle LLC on Schedule 13-D/A filed with the Securities and Exchange Commission on February 2, 2005. G.D. Searle LLC has sole voting and dispositive power over the shares.

Beneficial Ownership of Directors and Executive Officers

As of May 4, 2006, 9,967,845 shares were issued and outstanding. The following table sets forth information regarding ownership of the Company s Common Stock as of May 4, 2006 for each of (i) each named executive officer and director of the Company and (ii) all named executive officers and directors as a whole. For named executive officers and directors, this table also includes the position held by each such person.

	Positions and Offices with the Company, if any(1)	Amount and Nature of Beneficial Ownership(2)		Percent of Class (3)
Irwin J. Gruverman	Chief Executive Officer, Chairman of the Board of Directors, Secretary, and Treasurer	1,928,055	(3)	19.3 %
Robert P. Bruno	President and Chief Operating Officer	424,650	(5)	4.3 %
Jack M. Swig	Vice President Corporate Development and General Counsel	178,040	(6)	1.8 %
Dennis P. Riordan	Controller	169,372	(7)	1.7 %
Vincent B. Cortina	Director	39,375	(8)	*
James N. Little	Director	41,250	(9)	*
Leo Pierre Roy	Director	38,361	(10)	*
George Uveges	Director	8,125	(11)	*
Eric Walters	Director	8,125	(12)	*
All current directors and executive officers as a group (9 persons)		2,835,353	(13)	28.4 %

* Less than 1%

(1) All addresses are c/o MFIC Corporation, 30 Ossipee Road, Newton, MA 02464, unless otherwise indicated.

(2) Unless otherwise indicated, each person possesses sole voting and investment power with respect to the shares.

(3) Shares of Common Stock that a person has the right to acquire within 60 days of May 4, 2006, according to Registrar & Transfer Company, the Company s transfer agent, pursuant to the exercise of options are deemed to be outstanding for the purpose of computing the percentage ownership of such person or entity, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person or entity shown in the table. The inclusion herein of any shares of Common Stock deemed beneficially owned does not constitute an admission of beneficial ownership of those shares. Percentage ownership is based on 9,967,845 shares of Common Stock issued and outstanding on May 4, 2006.

(4) Consists of (i) 419,300 shares of Common Stock, (ii) 164,876 shares of Common Stock subject to currently exercisable options, (iii) 243,879 shares of Common Stock owned jointly by Mr. Gruverman and his wife, (iv) 100,000 shares of Common Stock owned by his wife, and (v) 1,000,000 shares of restricted Common Stock. Mr. Gruverman disclaims beneficial ownership of the 100,000 shares of Common Stock owned by his wife.

(5) Consists of 363,325 shares of Common Stock subject to currently exercisable options, and 61,325 shares of Common Stock.

(6) Consists of 129,500 shares of Common Stock subject to currently exercisable options and 48,540 shares of Common Stock owned by Mr. Swig.
(7) Consists of 157,000 shares of Common Stock subject to currently exercisable options and 11,772 shares of Common Stock owned jointly by Mr. Riordan and his wife.

(8) Consists of 15,000 shares of Common Stock owned jointly by Mr. Cortina and his wife and 24,375 shares of Common Stock subject to currently exercisable options.
(9) Consists of 22,500 shares of Common Stock and 18,750 shares of Common Stock subject to currently exercisable options.
(10) Consists of 12,111 shares of Common Stock and 26,250 shares of Common Stock subject to currently exercisable options.
(11) Consists of 8,125 shares of Common Stock subject to currently exercisable options.
(12) Consists of 8,125 shares of Common Stock subject to currently exercisable options.
(13) Includes 900,326 shares of Common Stock subject to currently exercisable options. See footnotes 4 through 12 above.

SELLING STOCKHOLDERS

This Prospectus relates to the continued offering of 100,000 shares of our Common Stock by the person listed below under the heading Selling Stockholder (the Selling Stockholder). The shares offered by the Selling Stockholder are those which may be acquired upon exercise of the Warrant. The Selling Stockholder is offering the Common Stock for its own account. The Selling Stockholder has not had a material relationship with us during the last three years.

Selling Stockholder	Number of Shares Underlying Warrant	Total Number of Shares Owned Upon Exercise of the Warrant in Full	Number of Shares Offered Under this Prospectus and to be Owned Following the Offering Upon Exercise of the Warrant in Full	Percent of Class
Maxim Group LLC	100,000	100,000	100,000	Less than 1%

DESCRIPTION OF COMMON STOCK

The following description of our Common Stock, together with the additional information we include in any applicable prospectus supplements, summarizes the material terms and provisions of the Common Stock that we may offer under this prospectus. For the complete terms of our Common Stock, please refer to our amended and restated charter and amended and restated by-laws, which are incorporated by reference into the registration statement which includes this prospectus. The General Corporation Law of Delaware may also affect the terms of our Common Stock.

Under our charter, our authorized capital stock consists of 20,000,000 shares of Common Stock, $0.01 par value per share. As of May 4, 2006, we had 9,967,845 shares of Common Stock outstanding. All outstanding shares of Common Stock are duly authorized, validly issued, fully paid and non-assessable.

Common Stock

Voting. For all matters submitted to a vote of stockholders, each holder of Common Stock is entitled to one vote for each share registered in his or her name on our books. Our Common Stock does not have cumulative voting rights. As a result, persons who hold more than 50% of the outstanding Common Stock can elect all of the directors who are up for election in a particular year.

Dividends. If our board of directors declares a dividend, holders of Common Stock will receive payments from our funds that are legally available to pay dividends. No dividend has been declared by the Company since inception of its operations and there are no current plans to declare any dividends in the foreseeable future. The Company s current policy is to retain all of its earnings to finance future growth. In addition, pursuant to loan covenants contained in the Company s loan agreement with its commercial lender, the Company may not pay dividends without the commercial lender s prior approval.

Liquidation and Dissolution. If we are liquidated or dissolve, the holders of our Common Stock will be entitled to share ratably in all the assets, after satisfaction of any outstanding debt to our senior lender.

Other Rights and Restrictions. Holders of our Common Stock do not have preemptive rights, and they have no right to convert their Common Stock into any other securities. Our Common Stock is not subject to redemption by us. Our amended and restated charter and amended and restated by-laws do not restrict the ability of a holder of Common Stock to transfer his or her shares of Common Stock. When we issue shares of Common Stock under this prospectus, the shares will be fully paid and non-assessable and will not have, or be subject to, any preemptive or similar rights.

Listing. Our Common Stock is listed on the Over the Counter Bulletin Board Market.

Transfer Agent and Registrar. The transfer agent and registrar for our Common Stock is Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016.

Certain Effects of Authorized but Unissued Stock

We have shares of Common Stock available for future issuance without stockholder approval. We may utilize these additional shares for a variety of corporate purposes, including future public offerings to raise additional capital or facilitate corporate acquisitions or for payment as a dividend on the capital stock. The existence of unissued and unreserved Common Stock may enable our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management.

Delaware Law And Charter And By-Law Provisions

Business Combinations. We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to specified exceptions, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation s outstanding voting stock.

Limitation of Liability; Indemnification. Our amended and restated charter contains provisions permitted under the General Corporation Law of Delaware relating to the liability of directors. The provisions eliminate a director s liability for monetary damages for a breach of fiduciary duty, except in circumstances involving wrongful acts, such as the breach of a director s duty of loyalty or acts or omissions which involve intentional misconduct or a knowing

violation of law. The limitation of liability described

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above does not alter the liability of our directors and officers under federal securities laws. Furthermore, our amended and restated by-laws contain provisions to indemnify our directors and officers to the fullest extent permitted by Section 145 of the General Corporation Law of Delaware. These provisions do not limit or eliminate our right or the right of any stockholder of ours to seek non-monetary relief, such as an injunction or rescission in the event of a breach by a director or an officer of his duty of care to us. We believe that these provisions will assist us in attracting and retaining qualified individuals to serve as directors.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the Act) may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Stockholder Action; Special Meeting of Stockholders. Our amended and restated by-laws also provide that any action required or permitted to be taken by our stockholders may be taken at a duly called annual or special meeting of stockholders, or by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. In addition, our amended and restated by-laws provide that special meetings of stockholders may be called only by the board of directors, the chief executive officer or the secretary at the request in writing of stockholders owning a majority in amount of the entire capital stock of the Company issued and outstanding and entitled to vote. These provisions could have the effect of delaying until the next stockholders meeting stockholder actions which are favored by the holders of a majority of our outstanding voting securities.

LEGAL MATTERS

For the purposes of this offering, Jack M. Swig, Vice President of Corporate Development and General Counsel of MFIC Corporation, is giving an opinion on the validity of the shares.

EXPERTS

MFIC s consolidated balance sheets as of December 31, 2005 and 2004, and the consolidated statements of operations, stockholders equity, and cash flows for each of the three years ended December 31, 2005 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Brown & Brown, LLP, an independent registered public accounting firm, as stated in their report appearing herein and elsewhere in the registration statement (which report on the financial statements expresses an unqualified opinion), and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the fiscal year ended December 31, 2005, the Company made principal and interest payments totaling $6,304 to Messrs. Jennings and Lewis, former principal holders of the Company s common stock, in connection with subordinated debt owed them.

DESCRIPTION OF BUSINESS

The Technologies:

Fluid Processing Equipment. The Company s Microfluidizer high shear fluid processing equipment is based on patents and related technology that were licensed by the Company from Arthur D. Little & Co. in 1983 and subsequently purchased by the Company in 1985. The Company holds one unexpired United States patent related to the method used to intimately mix liquids and disperse particulate solids in micro emulsions. See Patents and Proprietary Rights Protection.

Microfluidizer high shear fluid processors differ from conventional mechanical mixing and processing technologies in that the Company s equipment utilizes highly pressurized product streams that travel at high velocities in precisely defined microchannels producing high shear forces and then collide at ultra-high velocities in a small, confined space producing high forces of impact. There are no moving parts in this mixing and collision zone (fixed geometry). Combined forces of shear and impact in the fixed geometry design act upon products to cause deagglomeration and particle size reduction. These forces result in what the Company believes are smaller, more uniform, highly stable, and reproducible dispersions and emulsions than can be produced by any other means. Microfluidizer processors also differ from conventional mixing and homogenization equipment in that Microfluidizer processors permit a linear scaleup from 10 milliliters per minute to more than 15 gallons per minute with no basic change in product formulation or equipment design and engineering. The formulations processed may be liquid/liquid or liquid/solid combinations.

MMR. The Company has introduced its patented Microfluidizer Mixer-Reactor (MMR) system as a continuous chemical reactor, which the Company believes may become a standard device for conducting chemical reactions, many of which can be configured to produce nanoparticles. This system produces uniform nanoparticles with phase purity previously unachievable with conventional batch reaction technology. This degree of reaction chemistry control can lead to cost-effective product improvements and the development and manufacture of new nanomaterials in scalable quantities.

*Commercial App*lications:

Microfluidizer processor technology allows manufacturers in the chemical, pharmaceutical, biotechnology, 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, the proprietary equipment enables manufacture of unique products which cannot otherwise be produced. Microfluidizer processor equipment is generally used in the processing of high value-added end-products that require extremely small and uniform particle sizes. New applications include deagglomeration of carbon nanotubes for subsequent formatting or alignment for specific uses.

Microfluidizer processor equipment can be used to mix and formulate stable emulsions, dispersions and liposomes, and for cell disruption.

Emulsions are homogenous mixtures of oil and water components (or other normally immiscible components), which, if mixed properly, do not readily separate. Emulsions comprise many products, such as food additives, medicines (including injectable drugs), photographic films, and polymers. The Company believes that, generally, an emulsion processed with Microfluidizer processor equipment will exhibit improved stability and require reduced concentrations of costly emulsifying agents that are otherwise needed to create and/or maintain product stability.

Dispersions are mixtures of fine solids suspended in liquid so that the two do not separate readily after processing. Similar to emulsions, dispersions are used in a variety of consumer and industrial products, including pharmaceutical products (including injectable drugs), coatings, pigment dispersions for inkjet

inks and toners, phosphorescent coatings for TV screens and fluorescent lamps, and barium titanate for capacitors and toners.

Liposomes are biodegradable cell-like structures, formed from materials such as cholesterol and lecithin, which can be used to encapsulate medications or nutrients. Pharmaceutical and cosmetic manufacturers use liposomes as a delivery system to target active ingredients for specific anatomical sites and to prolong their efficacy. To date, liposomes have been used commercially in two predominant applications: medical diagnostic agents and cosmetics. Applications include the encapsulation of dye to be used as a marker in medical diagnostic tests and the encapsulation of ingredients for deeper skin penetration, or time-release control, as well as pharmaceutical, food and specialized agricultural applications.

In the biotechnology industry, Microfluidizer processor equipment is currently used to harvest, by cell rupture, protein grown in bacteria, plant or mammalian cells. The controlled forces of shear and impact produced by Microfluidizer processor equipment allow the cell wall to be ruptured without damage to, or contamination of, the cell contents. The Microfluidizer processor equipment eliminates grinding media contamination, thus minimizing downstream processing requirements.

Microfluidizer processor equipment is generally used in commercial applications where a scientist, formulator or chemist is trying to develop or improve a product formulation for a high value-added end product. The Company believes that its laboratory equipment uniquely facilitates modern formulation development and production capability. Microfluidizer processor equipment is initially employed in a research laboratory, with the equipment subsequently being used in scale-up to pilot scale production of new or improved products, and ultimately, for production scale volumes as the improved product comes to market. From laboratory to production, the Company guarantees scale-up of formulations and results on its equipment from 10 milliliters per minute on its laboratory and benchtop models up to more than 15 gallons per minute on its pilot and production models.

The Company currently manufactures and markets the following lines of equipment:

The HC Series: The HC Series, also known as Homogenizers, is a laboratory-scale series of equipment that is intended to impart moderate levels of energy into a customer s product with greater flow rates than the more energy intensive Microfluidizer processor devices. Operating pressures of products in the Company s HC Series can range from 250 psi to as high as 8,000 psi, and will process as much as two liters of fluid per minute.

The M-110 Series: The M-110 Series is a laboratory product line that is designed primarily for research and development applications. Standard models can generate pressures as high as 23,000 psi and have a product flow rate on the order of one-half liter per minute. The M-110EH includes an on-board hydraulic pump system for high performance lab scale micro-mixing at processing pressures up to 30,000 psi and flow rates up to 320 ml/min. It has numerous standard features including ceramic plungers, diamond interaction chambers, and options including explosion-proof motors, and steam sterilization.

The M-140 Series: The M-140K Series is a laboratory-scale unit developed for customers in the chemical, biotechnology, pharmaceutical, cosmetic and food processing industries that require elevated operating pressures and higher shear forces to achieve better performance. The M-140K can achieve operating pressures up to 40,000 psi. The M-140K has a built-in hydraulic system and utilizes a bi-directional intensifier pump that provides a highly uniform pressure profile. It has been designed with many accessories and options including an explosion proof motor, control package and solvent seal quench. The M-140K has flow rates up to 500 ml/min.

The M-210 Series: The M-210 Series is a pilot unit and is primarily marketed to pharmaceutical, cosmetic and food product manufacturers who have successfully created a new or improved

formulation on the M-110 Series unit and would like to increase their production capacity. The M-210 Series unit is typically used for testing formulations at greater volume levels before initiating full-scale production. For some customers (such as biotechnology and pharmaceutical product manufacturers), the M-210 Series may have the capacity to function as a production unit.

The M-700 Series: The M-700 Series was introduced at the end of fiscal 1998 and was initially designed, engineered, and constructed for use in rugged industrial environments such as coatings, paints and pigments research and manufacturing. This product line was especially designed to withstand such hazards as dust, grease, and water spray. Through use of our own proprietary design of an intensifier pump and other components, the system has also proven to be more cost-effective in many user applications.

More recently, because of the market demands of the pharmaceutical, biotech and cosmetic industries, the M-700 product line was upgraded to all stainless steel construction to conform to the U.S. Food and Drug Administration s current Good Manufacturing Practices (cGMP) requirements. (See discussion under heading Government Regulations .) It also offers steam in place (SIP) and ultra clean in place (UCIP) options.

The M-700 Series equipment is available in a variety of configurations and flow rates depending upon motor size and the number of intensifier pumps. The M-700 series equipment can achieve operating pressures up to 40,000 psi. On the low end of the spectrum is the 15 HP, single intensifier pump M-7115 machine with flow rates ranging from 0.9 gpm at 10,000 psi to 0.4 gpm at 30,000 psi. The next size up is the 25 HP, single intensifier pump, M-7125 machine with flow rates ranging from 2.3 gpm at 10,000 psi to 0.6 gpm at 30,000 psi. The largest offering of the M-700 series product line is the 50 HP, dual intensifier pump M-7250 machine with flow rates ranging from 4.5 gpm at 10,000 psi to 1.2 gpm at 30,000 psi. The M-7250 machine is available with a recently introduced constant pressure option in which operating pressure is maintained to within 5% of peak operating pressure resulting in lengthened component life, reduced operating costs, and quieter operation.

In September 2003, Microfluidics introduced a new addition to the M-700 series product line, the 100 HP, a dual intensifier pump, Model M-710 machine with flow rates ranging from 15 gpm at 5,000 psi to 3.0 gpm at 30,000 psi. This model has the equivalent throughput of the larger and more expensive M-610-100 HP model.

Additionally, during 2003 the Company introduced several new options and equipment features to the M-700 series product offerings including:

(i) The M-700 Microfluidizer Containment System, which is utilized for the protection of personnel engaged in the processing of highly toxic cancer therapeutic drugs and other hazardous materials.

(ii) The M-700 Microfluidizer Split System (separating the power source from the mixing/processing apparatus) accommodates demands of limited space within clean rooms and for noise abatement within pharmaceutical production facilities. In conjunction with this system, the Company also introduced a Level II Steam Sterility Option for all pilot and production systems used for production of injectable and other pharmaceuticals. This option enables compliance with stringent regulatory production requirements.

(iii) Ultra Clean in Place (UCIP) option, which provides the ability to clean in place (CIP) Microfluidizer processor systems between product batch runs or before storage. This capability differentiates our Microfluidizer materials processor systems from all other competitive products. Several pilot and production systems incorporating this option have already been delivered.

(iv) Constant pressure is now an available feature that eliminates virtually all process pressure variations which dramatically improves the overall reliability of all M7250 and 710 machines.

The M-610 Series: The M-610 Series consists of custom-built models used for large-scale production. These units have flow rates of up to 18 gallons per minute and generate operating pressures up to 40,000 psi. Generally, these models are available in 100 HP and 200 HP.

Microfluidizer Mixer/Reactor (MMR): The Company has introduced its patented Microfluidizer Mixer/Reactor (MMR) system as a continuous chemical reactor, which the Company believes may become a standard device for conducting chemical reactions, many of which can be configured to produce nanoparticles. This system produces uniform nanoparticles with phase purity previously unachievable with conventional batch reaction technology. This degree of reaction chemistry control can lead to cost-effective product improvements and the development and manufacture of new nanomaterials in scalable quantities. Applications for the new technology include improving the performance of catalysts, planarization polishing media, superconductors, abrasive silica, recording media, photographic media and pigments. It also may be used in the development and production of unique pharmaceutical products. The Company is proceeding with projects involving other companies seeking to optimize or enable drug delivery, catalysts and coatings products, as well as an internal program on nanopolymer creation for drug delivery and other applications. The Company believes that it cannot accurately assess or anticipate either the timing of receipt of an order or the delivery of its first MMR laboratory development systems. However, management believes that such event will occur in the foreseeable future. The Company believes that the MMR systems and technology make it a leader in the provision of systems for continuous production of uniform, reproducible, microparticles, nanoparticles and nanodroplets.

Former Company Business Division:

Morehouse-COWLES Division: On February 9, 2004, pursuant to an Asset Purchase Agreement (the Asset Purchase Agreement) dated February 5, 2004 between MFIC and a wholly owned subsidiary of NuSil Corporation, a California corporation (NuSil), MFIC sold substantially all of the assets and selected liabilities of its Morehouse-COWLES Division (the Division), to NuSil. Other than NuSil s prior purchases of products from the Division, there were no preexisting relationships between MFIC and NuSil.

Prior to February 9, 2004, the Company-operated Morehouse-COWLES Division manufactured grinding and dispersing equipment used in a broad number of industries including the coatings and ink industries. The products included high-speed single and multi-shaft dissolvers and dispersers, stone mills, and vertical and horizontal media mills. As one of the early inventors of dispersers, dissolvers, stone mills, and media mills, the one hundred-year-old COWLES name is an industry-accepted symbol of quality, reliable products. The Morehouse-COWLES Division manufactures products that are generally used for blending, mixing, deagglomeration and dispersion of paints and coatings, inks, adhesives, sealants, and pigment dispersions. These applications are more conventional whereby the formulations are less expensive to produce and the volumes of product produced are large. The Morehouse-COWLES product lines are used in broader, high volume, lower value-added applications requiring less stringent particle size reduction.

Marketing and Sales:

The Company s marketing and sales activities are conducted through a corporate marketing and sales group that is responsible for the worldwide marketing and sales of all products.

Marketing programs include media advertising, a website, direct mail, seminars, trade shows and telemarketing. In addition, the Company has an active program of field demonstrations. As an aid to the marketing and sales activity for the equipment, the Company provides prospective customers with access to

its applications laboratories. These laboratories, located in Newton, Massachusetts, Irvine, California, and Lampertheim, Germany, provide free processing and particle size and distribution analysis of a prospective customer s sample formulation. Additionally, a prospective customer may pay for subsequent laboratory time and services on a fee for services basis, which includes equipment rentals. Typically, about one third of such trials result in equipment orders within twelve months. Finally, the Company has an active domestic and foreign equipment rental program designed to allow customers to use Microfluidizer processor equipment at their own locations to experiment with and develop product formulations and processes. A rental period may last from weeks to several months. The Company has a rental pool of equipment to service the needs of customers, including laboratory and pilot machines. A significant percentage of customers who rent the Company s equipment elect to purchase rental equipment or to purchase new equipment.

Distributors and sales agents worldwide are supported with trade advertising, collateral literature and trade show materials. The distributors and sales agents also advertise directly on their own behalf and attend regional and international trade shows.

The Company sells its equipment in the United States through a network of independent manufacturers representative firms that are managed by the Company s regional sales managers. In a portion of Canada, the Company has an exclusive distributor for the Company s product line. In Europe, the Company sells its equipment through a network of independent regional sales agents who are managed by the Company s European Sales organization. In Asia and the Pacific Rim, the Company sells through a network of distributors and independent manufacturer s representative firms. Customers in other geographical regions are assisted directly by Company sales staff. In November 2005, the Company appointed a vice-president of sales and marketing, who oversees all regional sales managers, independent manufacturers representatives, and distributors.

Customers:

The users of the Company s systems are in various industries, including the chemical, pharmaceuticals, food, cosmetic and biotechnology industries. Two companies each accounted for more than 10% of 2005 revenues. Mizuho Industrial Co. Ltd. (Mizuho) a distributor for the Company, and a customer who is a wholly owned subsidiary of Teva Pharmaceuticals Industries Ltd. (Teva) accounted respectively for 19.5% and 18.9% of the Company s revenues from continuing operations in 2005, respectively; 20.5% and 12.8%, respectively, in 2004; and 20.6% and 10.6%, respectively, in 2003. Mizuho, the Company s Japanese distributor of Microfluidizer processor equipment and spare parts, resells the Company s equipment to numerous end-users in Japan, none of which individually represents 10% or more of the Company s revenues. Two customers accounted for 10.8% and 10.7% of the trade accounts receivable from continuing operations as of December 31, 2005, respectively. Three customers accounted for 15.1%, 14.7%, and 13.4% of the trade accounts receivable from continuing operations as of December 31, 2004, respectively. One customer accounted for 16.7% of the trade accounts receivable from continuing operations as of December 31, 2003. 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.

The Company sells its products in various countries. The Company s sales in North America, including the United States, Canada, and Mexico, accounted for approximately 51.8% of the Company s revenues from continuing operations in 2005; approximately 51.1% of the Company s revenues from continuing operations in 2004; and approximately 51.0% of the Company s revenues from continuing operations in 2003, with almost all of those sales coming from United States and Canada. Sales to the rest of the world accounted for approximately 48.2% of the Company s revenues from continuing operations in 2005; approximately 48.9% of the revenues from continuing operations in 2004; and approximately 49.0% of the revenues from continuing operations in 2003. Sales through the Company s exclusive distributors in Japan accounted for approximately 19.5% of the Company revenues from continuing operations in 2005;

20.5% of the Company s revenues from continuing operations in 2004; and 20.6% of the Company s revenues from continuing operations in 2003. Sales through the Company s representative in Korea accounted for approximately 12.1% of the Company s revenues from continuing operations in 2005; 4.8% of the Company s revenues from continuing operations in 2004; and 5.1% of the Company s revenues from continuing operations in 2003.

Competition:

The patented Microfluidizer processor equipment product line of high shear fluid processors has direct competition in its major markets, including pharmaceutical and coatings/chemical applications, but management believes that the Company s products have a larger installed base and performance advantages over products of our competitors. The Company also believes that its fixed-geometry systems which permit a linear scale up for drops per minute to gallons per minute offer a unique equipment advantage. The Company further believes that the Microfluidizer processor equipment product line offers the highest shear forces available in the process equipment market today. It has been proven in many instances that for critical formulations, Microfluidizer processors have produced better quality products for our customers.

The M-700 Series of fluid processors, together with the M-210 and M-610 product lines, provide high shear fluid processing capabilities for sanitary, sterile, and industrial applications. The Company believes that the Microfluidizer processor product line provides a distinct advantage over the product lines of our competitors with respect to the processing of abrasive slurries or solids dispersed in liquids in large part because of the Company s unique, wear-resistant, diamond interaction chamber and the special design of the intensifier pumping system. Further, recent incorporation of Company developed components in the M-700 series equipment has reduced the cost of these units, and they are priced competitively with lesser capability processing equipment.

The MMR systems may encounter significant competition and there are other companies that possess patents and claims to equipment or processes that claim to make production quantities of nanoparticles. At least one of these companies, Five Star Technologies Inc. (Five Star), has raised significant investment capital from venture capital sources ($4.5 million in its second round in October 2003) for its patented technology. Five Star claims the use of hydrodynamic cavitation to achieve production of nano and micro materials. Five Star also claims that its process is inherently scalable. Although the Company believes that its MMR system is superior in design and function there can be no assurance that Five Star, or others, will not pose a competitive impediment to sales of the Company s MMR system.

The Company faces, and will continue to face, intense competition from other companies who manufacture and sell materials processing systems. The Company is subject to significant competition from organizations that are pursuing technologies and products that are similar to the Company s technology and products. The Company s future success will depend in large part on maintaining its current technologically superior product line and competitive position in the fluid processing systems field. Rapid technological development by the Company or others may result in the Company s products or technologies becoming obsolete before the Company recovers the expenses it incurs in connection with their development. Products offered by the Company could be made obsolete by less expensive or more effective technologies. There can be no assurance that the Company will be able to make the enhancements to its technology necessary to compete successfully with newly emerging technologies. The Company expects competition to intensify in the materials processing systems field as technical advances are made and become more widely known.

Research and Development:

It is the Company s position that a greater proportion of its sales in the future will be for more advanced processor production systems that will incorporate features not currently included in many of the current production machines. In order to meet such a challenge going forward, it became necessary to hire additional research and development personnel. It also became necessary, as a result of this decision, to increase spending in research and development. Additional resources in both personnel and spending may be required in the future.

The Company s research and development efforts are focused on: (i) developing new processing applications for the process industries; (ii) further enhancements to the functionality, reliability and performance of existing products, and (iii) development of the Microfluidizer Mixer/Reactor (MMR) by: (a) working with customers who assist in the development of the system with both application knowledge and financial support, and (b) internal development program relating to reaction chamber design and creation of a variety of nanomaterials. There can be no assurance that the Company will be able to meet the enhancement challenges posed by applications of its core Microfluidizer processor business. Likewise there can be no assurance that the Company will be able to design and manufacture reaction chambers for its MMR applications that will deliver the desired result for specific applications. Research and development costs for continuing operations were $1,701,870, $1,033,978, and $785,849, in 2005, 2004, and 2003, respectively. Patent coverage for the MMR has been obtained both in the United States and in Europe (with national entry in process) and the Company is prosecuting the patent application in Canada.

Cooperative Research Arrangements:

The Company subsidizes research and development activities centered around Microfluidizer processor technology at a number of research centers and universities. The Company s subsidy of these activities takes the form of substantial reduction or elimination of the customary rental charges for Microfluidizer processor equipment provided for use. The Company has, in past years, subsidized research and development in the following fields at the following universities:

University	**Field of Research/Development**
University of Massachusetts, Lowell	biotechnology and nanotechnology
Massachusetts Institute of Technology	nanoemulsions for biomedical applications
Marine Biological Laboratory	cell disruption
Lehigh University	polymer chemistry
Université Laval (Quebec)	food science
Worcester Polytechnic Institute	catalytic chemistry
Purdue University	pharmaceuticals
University of Toronto	genomic research and expression

In addition to their research activities, these universities provide the Company with contacts at industrial companies that may utilize Microfluidizer processor technology. Most recently, the Company entered into a Research Collaboration Agreement with the University of Massachusetts, Lowell (UML) in September 2005 to develop new applications, processes and products in the area of nanomaterials utilizing MFIC s leading-edge materials processing and MMR equipment. Additionally, on occasion, research reports, technical papers, and doctoral theses may be published, which document the use of Microfluidizer processor technology. Finally, the Company engages in many informal co-operative development efforts with its customers.

Patents and Proprietary Rights Protection:

To protect its proprietary rights, the Company relies on a combination of U.S. patent and trademark laws, trade secrets, confidentiality agreements, contractual provisions and technical means. In the event of patent infringement or breach of confidentiality, there can be no assurance that these measures will be adequate or that the Company will have sufficient resources to prosecute or prevail in an action against a third party. In addition, the Company neither applied for nor obtained patent or trademark protection for its Microfluidizer processor equipment s interaction chamber in any country other than the United States and, as a result, its proprietary rights are not subject to the protection of patent or trademark laws of foreign countries where the Company s equipment is sold. The Company s Microfluidizer processor equipment method patent expires on March 13, 2007 and its device patent expired on August 6, 2002. The Company does not believe that the expiration of its device patent resulted in any material detriment to the Company since the Company has made many alterations, improvements and advances to its equipment over the years with such modification and innovations having been treated by the Company as trade secrets.

In 1997 the Company completed development of a novel adaptation of its Microfluidizer processor equipment a Multiple Stream High Pressure Mixer/Reactor , commercially designated as the Microfluidizer Mixer/Reactor (MMR). In August 1997, the Company filed a patent application for the device and its processes with the United States Patent and Trademark Office (USPTO), and filed a Patent Cooperation Treaty (PCT) application on May 5, 1998. In July and November, 2000, the USPTO issued to the Company notices of allowances of utility patent claims regarding the MMR and the use thereof. On September 18, 2002, the European Patent Office advised the Company it would grant its MMR patent substantially as applied for, including its device and process claims. The Company is in the process of pursuing national entry in France, Germany, Italy, The Netherlands, and the United Kingdom. The Company is currently prosecuting its MMR patent in Canada.

The Company maintains confidentiality agreements with its employees and also maintains confidentiality agreements and non-competition agreements with those third parties to whom it discloses non-public technical information relating to its equipment. The Company believes that enforcement of the provisions of such agreements should adequately protect the Company s proprietary information. However, in the event of a material breach of such agreements certain of the Company s valuable intellectual property may be disclosed to third parties (including competitors). In such event, despite provisions for equitable relief and damages, the Company may suffer competitively and be materially and negatively impacted as a result of any unauthorized disclosure.

Manufacturing:

At present, the Company subcontracts the manufacture and/or machining and finishing of many of the components of its equipment to third parties, with the Company undertaking the remaining fabrication, assembly and performance testing. The Company has selected certain primary suppliers based upon pricing terms, quality of their products, and the vendor s performance record.

The loss of any primary supplier could have a material, adverse effect on the Company s business, financial condition, or results of operations. Therefore, the Company has identified alternative suppliers for its most critical components (Alternative Sources). There can be no assurance that a transition to such Alternative Sources will not entail transitional delays, quality assurance and quality control difficulties, delivery problems, any or all of which would likely have an impact on the Company s production of equipment and could have a material adverse effect on the Company s business, financial condition, or results of operations.

Key Management / Personnel:

The Company s continued operation, innovation and growth are to some significant degree reliant on the continued services of its key executive officers and leading technical personnel. The Company does not maintain employment contracts with its key management or leading technical personnel. Though the Company believes that it 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 key management or leading technical personnel could, therefore, have a material adverse effect on the Company s business, financial condition, or results of operations.

Government Regulation:

Certain of the Company s customers utilize the Company s products in processes and production that are subject to governmental regulation. For example, the manufacturing and marketing of pharmaceutical products may require the approval of the U.S. Food and Drug Administration (FDA) within the United States and of comparable agencies in foreign countries. The FDA has established mandatory procedures, safety standards and protocols that apply to the manufacture, clinical testing and marketing of new pharmaceutical products in the United States. The process of seeking and obtaining FDA approval of a new product often takes a number of years and often involves the expenditure of substantial resources by the Company s customers. The FDA approval process can result in long lead times that are attendant to manufacturing equipment orders for these applications.

Further, in addition to product approvals, the FDA imposes requirements as to manufacturing practices, record keeping and reporting (current Good Manufacturing Practices or cGMP). cGMP-regulated companies are subject to inspections by the FDA (inclusive of Microfluidizer processor equipment) and product approvals may be withdrawn if cGMP are not met.

At present, the Company s customers include companies who are making FDA approved drugs, preparations, and products, including sunscreens and cosmetic lotions for external use and companies who utilize Microfluidizer processor equipment for the formulation or production of FDA approved parenteral (injectable) drugs or compounds including vaccines and anesthesia.

For the Company s equipment entering Europe, CE compliance (Regulatory Compliance with European Safety Standards) is required. All products manufactured for European customers (and for any others who may request it) by the Company are CE compliant.

Various laws, regulations and recommendations relating to safe working conditions, laboratory practices and the purchase, storage, movement, import and export, use and disposal of harmful or potentially harmful substances that may be used in connection with the Company s research work are, or may be, applicable to its activities. These laws include, among others, the United States Atomic Energy Act, the Clean Air Act, the Clean Water Act, the Occupational Safety and Health Act, the National Environmental Policy Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, national restrictions on technology transfer, import, export and customs regulations and other present and possible future local, state or Federal regulation. The extent of adverse governmental regulation, which might result from future legislation or administrative action, cannot be accurately predicted. Certain agreements that may be entered into by the Company involving exclusive license rights may also be subject to antitrust regulatory control, the effect of which cannot be predicted.

To date the Company has not been affected by any United States governmental restrictions on technology transfer, import, export and customs regulations and other present local, state or Federal

regulation. 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 of 2001 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 the Company s equipment will not be impacted by 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 the Company s business, financial condition, or results of operations.

Backlog:

The Company s sales order backlog related to continuing operations of accepted and unfilled orders at March 28, 2006, and March 11, 2005 was approximately $3,646,000 and $3,072,000, respectively. Backlog as of any particular date should not be relied upon as indicative of the Company s net revenues for any future period.

Employees:

The Company has approximately 48 full-time employees as of May 4, 2006. None of the Company s employees are covered by a collective bargaining agreement, and the Company considers its relations with its employees to be satisfactory. The Company believes that its future success will depend in large part on its ability to attract and retain highly skilled employees.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain Factors And Cautionary Statement Regarding Forward-Looking Statements

Management believes that this Registration Statement contains 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 revenue growth, and/or operating profitability, and to achieve, maintain, and/or increase net operating profitability. Such statements are based on management 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, (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 comply with the covenants and terms of the Company s loan agreement with its senior lender, (iv) whether the Company s technology will be adopted by customers as a means of producing MMR innovative materials in large quantities, (v) whether the Company is able to deploy prototype MMR placements and then manufacture and introduce commercial production MMR equipment as well as those risks set forth under the heading, Risk Factors , and (vi) whether the Company will achieve a greater proportion of its sales in the future through the sale of advanced processor production systems.

Critical Accounting Policies

The Company considers certain accounting policies related to revenue recognition and related receivables as well as the valuation of inventories to be critical policies due to the estimation processes involved in each.

Revenue Recognition

Revenue from the sale of machines and spare parts is generally recognized upon shipment of the product or when the earnings process is complete. Rental income for the lease of equipment is recognized on a straight-line basis over the term of the lease agreement. Rental income and equipment sales are classified as revenues in the consolidated statement of operations.

The Company has adopted Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements*. The Company recognizes sales at the time of shipment of the system to the customer. Management believes the customer s post-delivery acceptance provisions and installation are routine. The Company has never failed to successfully complete a system installation. With few exceptions, the Company limits its liability to the return of the equipment sold. Installation costs are predictable and insignificant to the total purchase price. The Company has demonstrated a history of customer acceptance subsequent to shipment and installation of these systems.

Judgments are required in evaluating the creditworthiness of our customers. In all instances, revenue is not recognized until the Company has determined that collection is reasonably assured. Should changes in conditions cause management to determine the aforementioned criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Allowance for Doubtful Accounts. *The Company s policy is to maintain allowances for estimated losses resulting from the inability of our customers to make scheduled payments. The Company regularly evaluates the collectibility of our trade receivable balances based on a combination of factors. When a customer s account balance becomes past due, we initiate dialogue with the customer to determine the cause. If it is determined that the customer will be unable to meet its financial obligation to us we record a specific allowance to reduce the related receivable to the amount we expect to recover given all information presently available. We believe our reported allowances are adequate as of December 31, 2005 and 2004.*

Inventory Valuation. *The Company values its inventory at the lower of cost or net realizable value on a first-in-first-out method. Management regularly evaluates inventory quantities on hand and records a provision for obsolete or excess inventory levels greater than those of anticipated usage in the subsequent two years. There are external factors that may require an adjustment to the anticipated demand including, but not limited to, technological changes in our markets, our ability to meet changing customer requirements, competitive pressures in products and prices, and the availability of key components from our suppliers. Purchasing requirements and alternative usage avenues are explored within these processes to mitigate inventory exposure. When recorded, our reserves are intended to reduce the carrying value of our inventory to its net realizable value.*

Impairment. *It has been the Company s policy to review the carrying values of long-lived assets and amortizable intangibles for impairment under Statement of Financial Accounting Standards (SFAS) No. 144 whenever an event or changes in circumstances indicated that the carrying amount of an asset may not be recoverable.*

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. The Company has established a policy for replacing parts that wear out or break prematurely. The policy calls for replacing the parts or repairing a machine within one year of the sale. The Company is now selling more advanced processor production systems than past years that may require more costly parts. A reserve balance has now been established. We believe the reserve balance in the amount of $58,000 to be adequate as of December 31, 2005.

Fiscal 2005 Compared to Fiscal 2004

Results of Continuing Operations

Total revenues for the year ended December 31, 2005 from continuing operations were $11,645,481 as compared to revenues of $12,158,919 for the year ended December 31, 2004, representing decrease of $513,438, or 4.2%.

North American sales for the year ended December 31, 2005 decreased to approximately $6,028,000, or 3.0%, as compared to North American sales of approximately $6,212,000 for the year ended December 31, 2004. This decrease in North American sales was principally due to a decrease in the sale of machines of approximately $1,478,000, and an increase in the sale of spare parts of approximately $1,294,000. Foreign sales were approximately $5,618,000 for the year ended December 31, 2005, compared to $5,947,000 for the year ended December 31, 2004, a decrease of $329,000, or 5.5%. This decrease in foreign sales was principally due to an increase in the sale of machines of approximately $1,044,000, and a decrease in the sale of spare parts of approximately $1,373,000. The decline in the sale of machines is a result, in part, of longer lead times associated with the increased complexity of manufactured automated operating controls, data acquisition systems, and sterilization features of systems orders received from biopharma customers. The decline is also the result of increased competition from several companies that sell laboratory units. The Company believes its laboratory machines are superior in terms of technology,

and that, with relatively minor modifications to these units that are currently in development, the Company hopes to regain market share.

Total cost of goods sold for 2005 was $5,917,994, or 50.8% of revenue, as compared to $5,607,755, or 46.1% of revenue for 2004. The increase in cost of goods sold reflects primarily the increased costs resulting from the manufacture and sales of production units, as opposed to manufacturing laboratory machines. Production units have a higher cost to manufacture, and correspondingly, a lower gross profit margin than laboratory machines. A substantial contributor to the increased cost of goods sold in 2005 was the Company s production of a highly customized production system for the Korean Institute of Industrial Technology (KITECH). This customized production machine accounted for 2.8% of the total revenues for 2005 or approximately $324,000, and 5.2% of the total costs of goods sold for the year ended December 31, 2005 or approximately $308,000.

The Company believes that the construction and design of this customized production system for KITECH enhanced the Company s knowledge and skills in producing advanced systems, and will allow the Company to quote other significant equipment orders at higher profit margins in the future. The Company also believes that, because KITECH provides high visibility for its equipment to companies that work with KITECH, it may lead those companies to consider purchasing our equipment to scale up the production of products developed on this system.

The Company s major product lines have different profit margins, as well as multiple profit margins within each product line. In the course of the periods compared, there may be significant changes in the cost of revenues as a percentage of revenue depending on the mix of product sold. Also, the cost of sales as a percentage of revenue will differ between laboratory and pilot plant units sold, due to the difference in costs between air driven and electric-hydraulic units.

Total operating expenses for 2005 were $6,498,637 or 55.8% of revenue, as compared to $5,853,994 or 48.1% of revenue for 2004, which is an increase of $644,643 or 11.0%.

It is the Company s position that a greater proportion of its sales in the future will be for more advanced processor production systems that will incorporate features not currently included in many of the current production machines. In order to meet that challenge going forward, it became necessary to hire additional research and development personnel, and also to increase spending in research and development.

Research and development expenses for 2005 were $1,701,870 compared to $1,033,978 for 2004, an increase of $667,892 or 64.6%. The increase in research and development expenses is primarily due to a planned increase in payroll and related costs of approximately $419,000, an increase in consulting costs of approximately $134,000, and an increase in development costs of approximately $101,000. The development costs were primarily for outside contractors and supplies.

Selling expenses for 2005 decreased approximately $175,000, from $2,587,658 in 2004 to $2,412,550 or 6.8%. The decreases were due principally to a decrease in commission expense of approximately $136,000, a decrease of approximately $35,000 in delivery costs, a decrease of approximately $33,000 in payroll and related costs, a decrease in advertising expenses of approximately $19,000, partially offset by an increase in facility operating costs of approximately $40,000, and an increase in printing costs of approximately $20,000. The decrease in commission costs was caused by a decrease in direct sales. Sales made in Asia, where the Company s products are sold primarily through distributors, were 35.2% of sales for the year ended December 31, 2005, compared to 31.0% of sales for the year ended December 31, 2004. Sales made to distributors are sold net of a discount, but without a commission. Accordingly, these sales generally reflect a lower gross margin offset by lower selling costs. The decrease in payroll was due to a reduction in personnel. The decrease in delivery costs was principally due to a change in vendors. The increase in printing costs was due to increased purchases of general brochures and cost data sheets compared to the previous year.

General and administrative expenses for 2005 increased by approximately $152,000, from $2,232,358 for the year ended December 31, 2004, to $2,384,217, or 6.8%. The increase in general and administrative expenses is primarily due to an increase in consultants costs of approximately $166,000, an increase in facility operating costs of approximately $74,000, an increase in corporate expenses of approximately $53,000, and an increase in professional fees of approximately $17,000, offset in part by a decrease in payroll costs of approximately $114,000. The increase in consultant costs was caused by the use of outside consultants that included a non-cash charge for warrants issued in the amount of $119,000, and a recruiting placement fee of $41,000. The increases in facility operating costs were primarily rent and energy related. The increase in corporate costs is due to the expense incurred in accelerating employees stock options of approximately $65,000. The decrease in payroll is a result of a planned decrease in payroll costs, including both a reduction in personnel and no bonuses paid employees for 2005, due to the loss from operations.

Interest expense for 2005 decreased from $69,383 in 2004 to $58,510, a decrease of $10,873, or 15.7%. The decrease was principally due to a reduction in the term debt outstanding.

Interest income for 2005 decreased to $26,124 from $27,965 for 2004, a decrease of $1,841. The decrease is due to less cash available for investing.

Results of Discontinued Operations

In 1998, the Company purchased the assets and liabilities of Morehouse-COWLES, Inc. (Morehouse-COWLES). This was done to complete a strategic combination with Microfluidics, in order to enhance the Company s position in the coatings market, which, at the time, was the dominant part of the Company s business.

Since that time, the direction of the core business of the Company changed significantly from coatings to other areas, in particular the health care sector. The Company determined that it could no longer support the previous strategic plan and the Company, therefore, prepared a plan to divest the Morehouse-COWLES Division.

It was expected that the sale would positively impact the Company s cash flow, and would allow the Company to focus on the core business, and expand its sales and marketing resources for the Company s Microfluidizer processor systems line, and promote its new MMR nanoparticle production systems.

During the fourth quarter of 2003, management committed to a plan to sell substantially all the assets and associated liabilities of Morehouse-COWLES. Accordingly, at fiscal year end 2003, the Company reported the division as discontinued operations and reclassified the assets and associated liabilities as available for sale. The search for a buyer eventually resulted in NuSil Corporation, a California corporation (NuSil) making an offer in December 2003 to purchase the Morehouse-COWLES Division s assets and related liabilities at a price that was acceptable to the Company.

On February 9, 2004, pursuant to an Asset Purchase Agreement (the Asset Purchase Agreement) dated February 5, 2004 between MFIC and a wholly owned subsidiary of NuSil, MFIC sold substantially all of the assets and selected liabilities of its Morehouse-COWLES Division (the Division), to NuSil. Other than NuSil s prior purchases of products from the Division, there were no preexisting relationships between MFIC and NuSil.

The assets of the Division that were sold included accounts receivable, furniture, fixtures and equipment, inventory and supplies, books and records, bids, contracts, prepaid expenses, leases, intellectual property, goodwill, domain names and claims, all as described in the Asset Purchase Agreement (collectively, the Assets). In addition, certain rights and obligations arising after February 9, 2004 under the Division s PacifiCare Group Health Insurance Policy were assigned. The Division s cash or cash equivalents on hand on February 9, 2004 were excluded from the assets being sold. Under the Asset

Purchase Agreement, the Division s executory obligations under certain contracts and bids, and the Division s accounts payable as of February 9, 2004 in the amount of $623,240, were assumed by NuSil.

The purchase price (other than the assumption of accounts payable described in the preceding paragraph) paid under the Asset Purchase Agreement was $918,238. Of the purchase price, $768,238 (the Closing Cash) was paid in cash, $100,000 was paid in the form of a Promissory Note (the Purchase Note) and $50,000 (the Holdback Payment) was withheld for payment at a future date subject to any purchase price adjustments and offsets, as provided for in the Asset Purchase Agreement.

The Closing Cash was paid directly to PNC Bank, National Association (PNC), to be applied to MFIC s outstanding balance under MFIC s Revolving Credit Loan with PNC (the Revolving Credit Loan).

The aforementioned Purchase Note bore interest at 5 percent per annum, was secured by the Assets pursuant to a Security Agreement dated February 5, 2004 (the Security Agreement) between the parties and was subject to certain offsets as provided in the Asset Purchase Agreement. Principal and interest on the Purchase Note were payable on February 9, 2005. NuSil forwarded a payment to the Company on that date which, in conjunction with an allowable offset of approximately $8,300 paid by NuSil for the benefit of the Company, satisfied the claim.

Pursuant to the Asset Purchase Agreement, MFIC entered into a Noncompetition and Nonsolicitation Agreement, dated February 5, 2004, which limits MFIC s ability to compete with the business of the Division for a period of five years.

The sale generated a loss of approximately $1,420,000. Due to the sale of the Morehouse-COWLES Division, goodwill associated with the 1998 purchase of this division in the amount of $2,100,000 was impaired in 2003.

In the three months ended March 31, 2004, the Company sold the assets and selected liabilities of the Division to NuSil. During the year ended December 31, 2005, the Company had no discontinued operations. Thus, all items of discontinued operations decreased 100% when compared to the comparable periods for the prior year.

Total Company revenues for the year ended December 31, 2005 from discontinued operations were $0, as compared to revenues of $323,635 for the comparable period for the prior year. The decrease during this period is due to the sale of the Division to NuSil on February 9, 2004.

Cost of goods sold for the year ended December 31, 2005 were $0, compared to $308,548 for the year ended December 31, 2004. The decrease in cost of goods sold is attributable to the sale of the Division to NuSil on February 9, 2004.

Total operating expenses for the year ended December 31, 2005, which include research and development, selling, and general administrative expenses, were $0, compared to $238,760 for the year ended December 31, 2004. The decrease in operating expenses is due to the sale of the Division to NuSil on February 9, 2004.

Fiscal 2004 Compared to Fiscal 2003

Results of Continuing Operations

Total revenues for the year ended December 31, 2004 from continuing operations were $12,158,919 as compared to revenues of $10,459,631 for the year ended December 31, 2003, representing an increase of $1,699,288, or 16%.

North American sales for the year ended December 31, 2004 were approximately $6,212,000, a 16% increase as compared to North American sales of approximately $5,337,000 for the year ended December 31, 2003. This increase in North American sales was principally due to an increase in the sale of

machines of approximately $680,000. Foreign sales were approximately $5,947,000 for the year ended December 31, 2004 compared to $5,123,000 for the year ended December 31, 2003, an increase of $824,000, or 16%. The increase in foreign sales was principally due to an increase in the sale of spare parts of approximately $977,000 compared to 2003.

Total cost of goods sold for 2004 was $5,607,755 or 46% of revenue, as compared to $4,988,226 or 48% of revenue for 2003. The increase in cost of goods sold in absolute dollars reflects principally the increase in sales generated by the Company compared to the previous year. The Company s major product lines have different profit margins, as well as multiple profit margins within each product line. In the course of the periods compared, there may be significant changes in the cost of revenues as a percentage of revenue depending on the mix of product sold. Also, the cost of sales as a percentage of revenue will differ between laboratory and pilot plant units sold, due to the difference in costs between air driven and electric-hydraulic units.

Total operating expenses for 2004 were $5,853,994, or 48% of revenue, as compared to $4,705,325, or 45% of revenue, for 2003, which is an increase of $1,148,669, or 24%.

Research and development expenses for 2004 were $1,033,978 compared to $785,849 for 2003, an increase of $248,129, or 32%. The increase in research and development expenses is principally due to an increase in payroll costs, as a result of both an increase in headcount and pay increases of approximately $253,000, an increase in consultants of approximately $41,000, an increase in travel and related costs of approximately $10,000, partially offset by a decrease in testing materials of approximately $79,000.

Selling expenses for 2004 increased approximately $400,000, or 18%, from $2,187,389 to $2,587,658. The increase was due principally to an increase in outside commissions of approximately $194,000, an increase in advertising costs of approximately $115,000, an increase in payroll costs of approximately $91,000, an increase in public relations costs of approximately $36,000, partially offset by a decrease in travel and related costs of approximately $38,000.

For the year ended December 31, 2004, general and administrative expenses increased by approximately $500,000, or 29%, from $1,732,087 for the year ended December 31, 2003, to $2,232,358. The increase in general and administrative expenses was principally due to an increase in payroll and related costs of approximately $241,000, professional fees of approximately $148,000, and investor relation expenses of approximately $73,000, general overhead costs of approximately $71,000, partially offset by a decrease in bad debt expense of approximately $76,000.

Interest expense for 2004 decreased to $69,383 from $116,097 for 2003, a decrease of $46,714, or 40%. The decrease was due primarily to the reduction in the line of credit caused by the paydown of the debt from proceeds received from the sale of the Morehouse-COWLES Division.

Interest income for 2004 increased to $27,965 from $9,508 in 2003, an increase of $18,457, or 194%. The increase is due to available cash being invested in money markets and certificates of deposit.

Results of Discontinued Operations

Total revenues for the year ended December 31, 2004 were $323,635 as compared to revenues of $3,655,237 for the year ended December 31, 2003, representing a decrease of $3,331,602, or 91%.

The decrease in revenue is due to the sale of the discontinued operation to NuSil Corporation (NuSil) on February 9, 2004.

Total cost of goods sold for 2004 was $308,548, or 95% of revenue, as compared to $2,601,957, or 71% of revenue for 2003. The decrease in cost of goods sold in absolute dollars is due to the sale of the discontinued operation to NuSil Corporation (NuSil) on February 9, 2004.

Total operating expenses for 2004 were $238,760, or 74% of revenue, as compared to $1,640,490, or 45% of revenue, for 2003, which is a decrease of $1,401,730, or 85%.

Research and development expenses for 2004 were $37,413 compared to $318,105 for 2003, a decrease of $280,692, or 88%. The decrease in research and development expenses was due to the sale of the discontinued operation to NuSil Corporation (NuSil) on February 9, 2004.

Selling expenses for 2004 decreased approximately $729,243, or 84%, from $863,337 to $134,094. The decrease in selling expenses is due to the sale of the discontinued operation to NuSil Corporation (NuSil) on February 9, 2004.

For the year ended December 31, 2004, general and administrative expenses decreased by $391,795 from $459,048 for the year ended December 31, 2003, to $67,253, or 85%. The decrease in general and administrative expenses is due to the sale of the discontinued operation to NuSil Corporation (NuSil) on February 9, 2004.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth, for the periods presented, certain data from our consolidated statements of operations. In the opinion of our management, the unaudited quarterly consolidated statement of operations data have been prepared on substantially the same basis as our audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information for the periods presented. This information should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

Summarized unaudited quarterly financial data are as follows

	Fiscal 2005 Quarters			
	First	**Second**	**Third**	**Fourth**
Revenues	$ 2,536,469	$ 3,163,645	$ 2,881,267	$ 3,064,100
Gross profit	1,387,540	1,556,366	1,354,132	1,429,449
Net (loss) from continuing operations before income tax benefit (expense)	(193,066)	(36,193)	(297,291)	(276,986)
Income tax benefit (expense)	77,000			(262,000)
Net (loss)	(116,066)	(36,193)	(297,291)	(538,986)
Basic net (loss) income per share from continuing operations:	$ (0.01)	$ (0.00)	$ (0.03)	$ (0.06)
Diluted net (loss) income per share from continuing operations	$ (0.01)	$ (0.00)	$ (0.03)	$ (0.06)

	Fiscal 2004 Quarters			
	First	**Second**	**Third**	**Fourth**
Revenues	$ 2,251,452	$ 3,081,977	$ 3,163,785	$ 3,661,705
Gross profit	1,238,579	1,675,974	1,813,584	1,823,027
Net (loss) income from continuing operations before income tax benefit	(55,183)	256,495	282,050	172,390
Income tax benefit				450,000
Net (loss) income from continuing operations	(55,183)	256,495	282,050	622,390
(Loss) from discontinued operations				