

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC  
Form 10QSB  
February 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For quarterly period ended: December 31, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

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

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.

-----  
(Exact name of small business as specified in its charter)

Delaware

04-2217279

-----  
(State of incorporation)

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

70 Orville Drive, Bohemia, New York 11716

-----  
(Address of principal executive offices)

(631)567-4700

-----  
(Issuer's telephone number)

Not Applicable

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

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 12 months (or  
for such shorter period that the registrant was required to file such  
reports), and (2) has been subject to such filing requirements for the  
past 90 days. Yes [ X ] No

State the number of shares outstanding of each of the issuer's classes  
of common equity, as of February 1, 2002: 938,540 shares outstanding  
of the Company's Common Stock, par value, \$ .05.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [ X ]

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PART I--FINANCIAL INFORMATION  
Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

ASSETS	December 31, 2001
	-----
Current Assets:	
Cash and cash equivalents	\$ 263,900
Investment securities	427,700
Trade accounts receivable, less allowance for doubtful accounts of \$7,400	358,400
Inventories	688,000
Prepaid expenses and other current assets	58,700
	-----
Total current assets	1,796,700
Property and equipment at cost, less accumulated depreciation of \$348,700	176,200
	-----
Other assets and deferred charges:	
Intangible assets, less accumulated amortization of \$28,200	9,400
Deferred Taxes	101,600
Other	145,500
	-----
	256,500
	-----
	\$2,229,400
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	\$ 132,300
Accrued expenses	124,500
	-----
Total current liabilities	256,800
	-----
Deferred compensation	88,900
	-----
Shareholders' equity:	
Common stock \$.05 par value	47,700
Additional paid-in capital	951,100
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(5,900)
Retained earnings	943,200
	-----
	1,936,100
Less common stock held in treasury, at cost	52,400
	-----
	1,883,700
	-----
	\$2,229,400
	=====

See notes to condensed unaudited consolidated financial statements

## Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Net sales	\$872,700	\$759,400	\$1,794,000	\$1,546,700
Cost of goods sold	539,600	455,700	1,069,000	922,900
	-----	-----	-----	-----
Gross profit	333,100	303,700	725,000	623,800
Operating Expenses:				
General & administrative	207,600	173,100	414,100	351,500
Selling	46,400	40,100	83,600	65,000
Research & development	68,800	68,600	147,800	133,400
	-----	-----	-----	-----
	322,800	281,800	645,500	549,900
	-----	-----	-----	-----
Income from operations	10,300	21,900	79,500	73,900
Interest & other income	5,300	8,600	13,600	15,400
	-----	-----	-----	-----
Income before income taxes	15,600	30,500	93,100	89,300
Income taxes	2,000	-	29,000	-
	-----	-----	-----	-----
Net income	\$ 13,600	\$ 30,500	\$ 64,100	\$ 89,300
	=====	=====	=====	=====
Net income per common share - basic	\$ .01	\$ .04	\$ .07	\$ .11
Net income per common share - diluted	\$ .01	\$ .03	\$ .06	\$ .09

See notes to condensed unaudited consolidated financial statements

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For the Six Month Periods Ended  
December 31, 2001    December 31, 2000

Operating activities:		
Net Income	\$ 64,100	\$ 89,300
	-----	-----
Adjustments to reconcile net income to net cash provided by (used in) Operating activities:		
(Gain) on sale of investments	( 4,400)	-
Depreciation and amortization	32,400	34,700
Change in assets and liabilities:		
Accounts receivable	( 58,000)	(41,700)
Inventories	(111,600)	(121,500)
Prepaid expenses and other current assets	13,000	( 5,700)
Other assets	5,400	( 100)
Accounts payable	(20,200)	62,700
Accrued expenses	50,600	16,400
	-----	-----
Total adjustments	(92,800)	(55,200)
	-----	-----
Net cash provided by (used in) operating activities	(28,700)	34,100
Investing activities:		
Purchase of investment securities, available-for-sale	( 80,600)	(100,000)
Purchase of investment securities, held to maturity	(148,000)	( 76,000)
Redemptions of investment securities, available-for-sale	175,300	-
Redemptions of investment securities, held to maturity	40,000	186,500
Capital expenditures	(10,000)	(36,500)
	-----	-----
Net cash used in investing activities	(23,300)	(26,000)
Financing activities,		
exercise of stock options	40,500	-
	-----	-----
Net increase (decrease) in cash and cash equivalents	(11,500)	8,100
Cash and cash equivalents, beginning of year	275,400	394,600
	-----	-----
Cash and cash equivalents, end of period	\$ 263,900	\$ 402,700
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 6,500	\$ 400

See notes to condensed unaudited consolidated financial statements

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## SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General: As contemplated by the Securities and Exchange Commission (the "Commission"), the accompanying financial statements and footnotes thereto have been condensed and therefore do not contain all financial statements and disclosures required by generally accepted accounting principles. Reference is made to the financial statements contained within the Form 10-KSB for the fiscal year ended June 30, 2001 of Scientific Industries, Inc. (the "Company").

The statements as of and for the three and six months ended December 31, 2001 and 2000 are unaudited and include all normal recurring adjustments necessary to present fairly the results of such unaudited interim periods. The results for the three and six months ended December 31, 2001, are not necessarily an indication of the results of the full fiscal year.

1. Significant accounting policies:

Principles of consolidation:

The accompanying condensed consolidated financial statements include the accounts of the Company and Scientific Packaging Industries, Inc., a New York Corporation and an inactive wholly owned subsidiary of the Company. All intercompany items and transactions have been eliminated in consolidation.

2. Inventories:

Inventories for interim financial statement purposes are based on perpetual inventory records at the end of the applicable periods. Components of inventory are as follows:

	December 31, 2001
	-----
Raw Materials	\$ 519,800
Work in process	91,600
Finished Goods	76,600
	-----
	\$ 688,000
	=====

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### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, (continued)

3. Net income per Common Share:

Basic net income per common share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted net income per common share includes the dilutive effect of stock options and a warrant.

Net income per common share was computed as follows:

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2001	2000	2001	2000
Net income	\$13,600	\$30,500	\$ 64,100	\$ 89,300
Weighted average common shares outstanding	933,070	835,540	914,340	835,540
Effect of dilutive securities, stock options	75,384	123,948	96,787	121,006
Weighted average dilutive common shares outstanding	1,008,454	959,488	1,011,127	956,546
Net income per common share - basic	\$ .01	\$ .04	\$ .07	\$ .11
Net income per common share - diluted	\$ .01	\$ .03	\$ .06	\$ .09

Anti-dilutive stock options to purchase 51,000 shares of Common Stock at \$1.92 to \$2.40 per share were outstanding as of December 31, 2001, and to purchase 71,000 shares of Common Stock at \$1.50 to \$2.00 per share were outstanding as of December 31, 2000, however, these shares were not included in the computations of diluted net income per common share because the options' exercise price was greater than the average market price of the Company's common stock.

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### 4. Comprehensive Income:

The Company adopted SFAS No. 130, "Reporting Comprehensive Income," which established standards for reporting and displaying comprehensive income in financial statements. There was no significant difference between net income and comprehensive income for the three and six months ended December 31, 2001 and 2000.

### Item 2. Management's Discussion and Analysis

#### Liquidity and Capital Resources

Due primarily to the increase in income for the respective six month period, the Company's working capital for the six months ended December 31, 2001 increased \$130,400 to \$1,539,900 and for the six months ended December 31, 2000, increased \$87,200 to \$1,242,800. The Company has available a secured bank line of credit of \$200,000 with North Fork Bank. The credit line expires on November 1, 2002 and carries interest at prime plus 1%, which has not yet been utilized. Management believes that it will be able to meet its cash flow requirements during the next year from its available financial resources which include its cash and cash equivalents and investment securities.

#### Results of Operations

The Three Months Ended December 31, 2001 Compared with the Three Months Ended December 31, 2000.

Net sales of \$872,700 increased \$113,300 (14.9%) for the three months ended December 31, 2001 compared to \$759,400 for the three months ended December 31, 2000 primarily as a result of an increase in the volume of unit sales compared to the prior year's period. The gross profit percentage of 38.2% for the three months ended December 31, 2001, is lower than the gross profit of 40.0% for the three months ended December 31, 2000, primarily due to an increase in the factory supervisory staff in preparation for future growth.

General and administrative expenses for the three months ended December 31, 2001 of \$207,600, increased \$34,500 (19.9%) from \$173,100 for the comparable period in 2000 primarily as a result of costs incurred to pursue external business opportunities including fees for an investment banker.

Selling expenses increased \$6,300 (15.7%) to \$46,400 for the three months ended December 31, 2001 from \$40,100 for the comparable period in 2000. This was due to increased marketing activity, primarily trade show exhibiting and promotional material.

The Company incurred no income tax expense for the three months ended December 31, 2000 due to the use of available net operating loss and tax credit carryforwards during the fiscal year ended June 30, 2001. Income tax expense amounted to \$2,000 for the three months ended December 31, 2001.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

The Six Months Ended December 31, 2001 Compared with Six Months Ended

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December 31, 2000.

Net sales of \$1,794,000 increased \$247,300 (16.0%) for the six months ended December 31, 2001 from \$1,546,700 for the six months ended December 31, 2000 primarily as a result of an increase in the volume of unit sales compared to the prior year's period. Gross profit for the six months ended December 31, 2001, was 40.4% compared to 40.3% for the six months ended December 31, 2000.

General and administrative expenses for the six months ended December 31, 2001 of \$414,100 increased \$62,600 (17.8%) from \$351,500 for the six months ended December 31, 2000 primarily as a result of expenses incurred in the pursuit of external business opportunities and legal fees incurred in the ordinary course of business.

Selling expenses for the six months ended December 31, 2001 were \$83,600, an increase of \$18,600 (28.6%) from \$65,000 for the six months ended December 31, 2000 due to increased marketing activity, primarily trade show exhibiting and promotional material.

Research and development expenses for the six months ended December 31, 2001 increased \$14,400 (10.8%) to \$147,800 compared to \$133,400 for the six months ended December 31, 2000 due to an increase in development activity for planned new products primarily during the first three months of the six-month period.

The Company incurred no income tax expense for the six month period ended December 31, 2000 compared to \$29,000 for the six month period ended December 31, 2001 because the Company had available net operating loss and tax credit carryforwards during fiscal year 2001.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

### Part II OTHER INFORMATION

#### Item 1. Legal Proceedings

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

#### Item 2. Changes in Securities - None

#### Item 3. Defaults Upon Senior Securities - None

#### Item 4. Submission of Matters to a Vote of Security Holders - None

#### Item 5. Other Information - None

#### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: No reports on Form 8-K were filed during the period covered by this report.



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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Scientific Industries, Inc.  
Registrant

/s/Lowell A. Kleiman  
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Lowell A. Kleiman  
President and Treasurer  
(Chief Executive and Financial Officer)

/s/Helena R. Santos  
-----

Helena R. Santos  
Controller and Assistant Treasurer  
(Principal Accounting Officer)

Date: February 14, 2002

