

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC
Form 10QSB
May 13, 2002

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

FORM 10-QSB

(Mark One)

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

For quarterly period ended: March 31, 2002

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 issuer 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 [] No []

State the number of shares outstanding of each of the issuer's classes of common equity, as of April 30, 2002: 954,540 shares outstanding of the Company's Common Stock, par value, \$.05.

Transitional Small Business Disclosure Format (check one):

Yes [] No []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS

March 31, 2002

Current Assets:

| | |
|---|------------|
| Cash and cash equivalents | \$ 119,000 |
| Investment securities | 508,100 |
| Trade accounts receivable, less allowance for doubtful accounts of \$7,400 | 578,300 |
| Inventories | 602,000 |
| Prepaid expenses and other current assets | 29,500 |

| | | |
|----------------------|-----------|-------|
| Total current assets | 1,836,900 | ----- |
|----------------------|-----------|-------|

| | | |
|---|---------|-------|
| Property and equipment at cost, less accumulated depreciation of \$362,000 | 175,500 | ----- |
|---|---------|-------|

Other assets and deferred charges:

| | |
|---|---------|
| Intangible assets, less accumulated amortization of \$29,700 | 8,000 |
| Deferred taxes | 101,600 |
| Other | 145,400 |

255,000

\$2,267,400

=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

| | |
|------------------|-----------|
| Accounts payable | \$ 97,000 |
| Accrued expenses | 180,200 |

| | | |
|---------------------------|---------|-------|
| Total current liabilities | 277,200 | ----- |
|---------------------------|---------|-------|

| | | |
|-----------------------|--------|-------|
| Deferred compensation | 88,900 | ----- |
|-----------------------|--------|-------|

Shareholders' equity:

| | |
|---|----------|
| Common stock \$.05 par value | 48,500 |
| Additional paid-in capital | 955,900 |
| Accumulated other comprehensive loss, unrealized holding loss on investment securities | (4,500) |
| Retained earnings | 953,800 |

1,953,700

| | |
|---|--------|
| Less common stock held in treasury, at cost | 52,400 |
|---|--------|

1,901,300

\$2,267,400

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See notes to condensed unaudited consolidated financial statements

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

| | For the Three Month Periods Ended | | For the Nine Month Periods Ended | |
|---------------------------------------|--------------------------------------|-----------|-------------------------------------|-------------|
| | March 31, | | March 31, | |
| | 2002 | 2001 | 2002 | 2001 |
| Net sales | \$ 892,000 | 1,027,100 | \$2,686,000 | \$2,573,800 |
| Cost of goods sold | 540,500 | 589,000 | 1,609,500 | 1,511,900 |
| Gross profit | 351,500 | 438,100 | 1,076,500 | 1,061,900 |
| Operating Expenses: | | | | |
| General and administrative | 219,100 | 221,200 | 633,200 | 572,700 |
| Selling | 46,700 | 39,600 | 130,300 | 104,600 |
| Research and development | 74,500 | 62,500 | 222,300 | 195,900 |
| | 340,300 | 323,300 | 985,800 | 873,200 |
| Income from operations | 11,200 | 114,800 | 90,700 | 188,700 |
| Interest and other income | 2,400 | 1,100 | 16,000 | 16,500 |
| Income before income taxes | 13,600 | 115,900 | 106,700 | 205,200 |
| Income taxes | 3,000 | - | 32,000 | - |
| Net income | \$ 10,600 | \$115,900 | \$ 74,700 | \$205,200 |
| Net income per common share - basic | \$.01 | \$.14 | \$.08 | \$.25 |
| Net income per common share - diluted | \$.01 | \$.12 | \$.07 | \$.21 |

See notes to condensed unaudited consolidated financial statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Nine Month Periods Ended

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| | March 31, 2002 | March 31, 2001 |
|---|----------------|----------------|
| Operating activities: | | |
| Net Income | \$ 74,700 | \$ 205,200 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Gain on sale of investments | (4,400) | - |
| Depreciation and amortization | 48,100 | 53,200 |
| Change in assets and liabilities: | | |
| Accounts receivable | (277,900) | (158,200) |
| Inventories | (25,600) | (64,600) |
| Prepaid expenses and other current assets | 42,200 | (41,400) |
| Other assets | 5,500 | (100) |
| Accounts payable | (55,500) | 46,500 |
| Accrued expenses | 106,300 | 49,100 |
| | ----- | ----- |
| Total adjustments | (161,300) | (115,500) |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | (86,600) | 89,700 |
| | ----- | ----- |
| Investing activities: | | |
| Purchase of investment securities, available for sale | (114,700) | (269,500) |
| Purchase of investment securities, held to maturity | (310,200) | (106,000) |
| Redemptions of investment securities, available-for-sale | 175,300 | - |
| Redemptions of investment securities, held to maturity | 156,500 | 221,500 |
| Capital expenditures | (22,100) | (70,300) |
| Purchase of intangible assets | (700) | - |
| | ----- | ----- |
| Net cash used in investing activities | (115,900) | (224,300) |
| | ----- | ----- |
| Financing activities; | | |
| exercise of stock options | 46,100 | 21,000 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (156,400) | (113,600) |
| | ----- | ----- |
| Cash and cash equivalents, beginning of year | 275,400 | 394,600 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 119,000 | \$ 281,000 |
| | ===== | ===== |
| 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 (UNAUDITED)

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 nine months ended March 31, 2002 and 2001 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 nine months ended March 31, 2002 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:

| | March 31, 2002 |
|-----------------|----------------|
| | ----- |
| Raw Materials | \$ 500,700 |
| Work in process | 58,600 |
| Finished Goods | 42,700 |
| | ----- |
| | \$ 602,000 |
| | ===== |

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

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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 | | For the Nine Month Periods Ended | |
|---|--------------------------------------|-----------|-------------------------------------|-----------|
| | March, 31 | | March 31, | |
| | 2002 | 2001 | 2002 | 2001 |
| Net income | \$ 10,600 | \$115,900 | \$ 74,700 | \$205,200 |
| Weighted average common shares outstanding | 945,296 | 841,540 | 924,117 | 837,510 |
| Effect of dilutive securities | 75,063 | 136,551 | 89,542 | 126,188 |
| Weighted average dilutive common shares outstanding | 1,020,359 | 978,091 | 1,013,659 | 963,698 |
| Net income per common share - basic | \$.01 | \$.14 | \$.08 | \$.25 |
| Net income per common share - diluted | \$.01 | \$.12 | \$.07 | \$.21 |

Stock options to purchase 16,000 shares of Common Stock at \$2.40 per share outstanding as of March 31, 2002, and options to purchase 51,000 shares of Common Stock at \$1.88 to \$2.00 per share were outstanding at March 31, 2001 were not included in the computations of diluted net income per common share because the options' exercise prices were greater than the average market price of the Company's common stock.

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 nine month periods ended March 31, 2002 and 2001.

5. Other:

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A financial advisor employed by the Company pursuant to an engagement letter that was not extended by the Company beyond its expiration date of March 31, 2002 asserted a claim against the Company in April 2002 in the amount of \$125,000 for alleged services rendered to the Company that were alleged to be outside the scope of the letter. The Company denies engaging the financial advisor for any services outside the scope of the engagement letter or that any amounts are owing to the advisor. The Company's counsel has advised the Company that based on its review of the engagement letter and the Company's denial, it is unlikely that the financial advisor will prevail if it institutes a legal proceeding. Accordingly, no provision is deemed warranted.

Item 2. Management's Discussion and Analysis

Liquidity and Capital Resources

The Company's working capital as of March 31, 2002 and March 31, 2001, due primarily to the income for the respective nine month periods then ended, were \$1,559,700 and \$1,368,200 respectively, representing increases of \$150,200 and \$212,600, respectively, from the beginning of the periods. The Company has available for its working capital needs, a secured bank line of credit of \$200,000 with North Fork Bank which expires on November 1, 2002 and carries interest at prime plus 1%, all of which was available as of March 31, 2002. Management believes that the Company will be able to meet its cash flow needs during the next 12 months ending March 31, 2003 from its available financial resources which include its cash and investment securities.

Results of Operations

The Three Months Ended March 31, 2002 Compared with the Three Months Ended March 31, 2001.

The Company's net sales for the three months ended March 31, 2001 benefitted from an exceptional level of orders from both foreign and domestic customers. Accordingly, the Company's net sales for the three months ended March 31, 2002 were \$892,000 compared to \$1,027,100 for the comparable period last year, a decrease of \$135,100 (13.1%). The higher net sales for the three months ended March 31, 2001 along with an increase in factory supervisory staff during the current fiscal year resulted in a lower gross profit percentage of 39.4% for the three months ended March 31, 2002 compared to a gross profit percentage of 42.7% for the three months ended March 31, 2001.

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Selling expenses increased \$7,100 (17.9%) to \$46,700 for the three months ended March 31, 2002 from \$39,600 for the three months ended March 31, 2001, primarily as a result of increased promotional activity.

Research and development expenses increased \$12,000 (19.2%) to \$74,500 for the three months ended March 31, 2002 from \$62,500 for the comparable period last year, mainly as a result of increased research and development activity related to planned new products.

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The Company reflected income tax expense of \$3,000 for the three months ended March 31, 2002. No income tax expense was incurred for the three months ended March 31, 2001 due to the application of net operating loss carryforwards.

The Nine Months Ended March 31, 2002 Compared with Nine Months Ended March 31, 2001.

Net sales of \$2,686,000 for the nine months ended March 31, 2002 increased \$112,200 (4.3%) compared to net sales of \$2,573,800 for the comparable period last year primarily as a result of higher volume in unit sales. The gross profit percentage of 40.0% for the nine months ended March 31, 2002 decreased slightly from 41.3% for the comparable period last year, mainly due to an increase in factory supervisory staff in preparation for future growth.

General and administrative expenses of \$633,200 for the nine months ended March 31, 2002 increased \$60,500 (10.6%) from \$572,700 for the nine months ended March 31, 2001, mainly as a result of expenses incurred for the pursuit of external business opportunities.

Selling expenses of \$130,300 for the nine months ended March 31, 2002 increased \$25,700 (24.6%) from \$104,600 for the comparable period last year primarily due to increased promotional activity.

Research and development expenses of \$222,300 for the nine months ended March 31, 2002 increased \$26,400 (13.5%) from \$195,900 for the comparable period last year, mainly as a result of an increase in development activity for planned new products.

The Company reflected income tax expense of \$32,000 for the nine months ended March 31, 2002. No income tax expense was incurred for the nine months ended March 31, 2001 due to the application of net operating loss carryforwards.

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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

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Item 3. Defaults Upon Senior Securities - None

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

The Company's 2001 Annual Meeting was held on March 13, 2002. At this meeting Joseph I. Kesselman was re-elected to the Company's Board of Directors to serve until the Company's annual meeting of stockholders with respect to the year ended June 30, 2004 and until the due election and qualification of his successor by a vote of 759,631 shares "For" and 6,010 shares "Withheld". The other directors whose terms of office as directors continued after the meeting are Arthur M. Borden, Lowell A. Kleiman, Roger B. Knowles, and James S. Segasture. The shareholders also ratified the appointment of Nussbaum Yates & Wolpow as the Company's independent accountants for the fiscal year ending June 30, 2002 by a vote of 759,871 shares "For" and 432 shares abstaining.

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, hereunto duly authorized.

Scientific Industries, Inc.

Registrant

Date May 14, 2002

/s/

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

/s/

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