

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC  
Form 10QSB  
November 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 SEPTEMBER 30, 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 [ x ] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of October 31, 2002: 954,541 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

	September 30, 2002
	-----
Current Assets:	
Cash and cash equivalents	\$ 389,700
Investment securities	422,700
Trade accounts receivable, less allowance for doubtful accounts of \$7,400	351,300
Inventories	762,100
Prepaid expenses and other current assets	46,200
	-----
Total current assets	1,972,000
	-----
Property and equipment at cost, less accumulated depreciation of \$389,200	168,900
Deferred taxes	106,600
Intangible assets, less accumulated amortization of \$32,700	5,600
Other	90,700
	-----
	\$2,343,800
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	\$ 166,400
Accrued expenses	190,900
	-----
Total current liabilities	357,300
	-----
Deferred compensation	59,500
Shareholders' equity:	
Common stock \$.05 par value	48,700
Additional paid-in capital	963,600
Accumulated other comprehensive gain, unrealized holding gain on investment securities	4,200
Retained earnings	962,900
	-----
	1,979,400
Less common stock held in treasury, at cost	52,400
	-----
	1,927,000
	-----
	\$2,343,800
	=====

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	
	September 30, 2002	September 30, 2001
	-----	-----
Net sales	\$ 850,300	\$ 921,300
Cost of goods sold	502,500	529,400
	-----	-----
Gross profit	347,800	391,900
	-----	-----
Operating Expenses:		
General and administrative	224,700	206,500
Selling	31,800	37,200
Research and development	87,400	79,000
	-----	-----
	343,900	322,700
	-----	-----
Income from operations	3,900	69,200
Interest and other income	4,100	8,300
	-----	-----
Income before income taxes	8,000	77,500
Income taxes	1,400	27,000
	-----	-----
Net income	\$ 6,600	\$ 50,500
	=====	=====
Net income per common share - basic	\$ .01	\$ .06
Net income per common share - diluted	\$ .01	\$ .05

See notes to condensed unaudited consolidated financial statements

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

	For the Three Month Periods Ended	
	September 30, 2002	September 30, 2001
	-----	-----
Operating activities:		
Net Income	\$ 6,600	\$ 50,500
Adjustments to reconcile net income		

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to net cash used in operating activities:		
Gain on sale of investments	( 600)	( 4,400)
Loss on disposal of asset	200	-
Depreciation and amortization	16,500	15,800
Change in assets and liabilities:		
Accounts receivable	( 75,300)	( 169,100)
Inventories	( 83,000)	( 38,200)
Prepaid expenses and other current assets	17,000	5,800
Other assets	3,800	5,500
Accounts payable	82,000	( 60,200)
Accrued expenses	9,700	68,500
	-----	-----
Total adjustments	( 29,700)	( 176,300)
	-----	-----
Net cash used in operating activities	( 23,100)	( 125,800)
	-----	-----
Investing activities:		
Purchase of investment securities, available for sale	( 44,400)	( 20,800)
Purchase of investment securities, held to maturity	-	( 106,900)
Redemptions of investment securities, available-for-sale	52,600	175,300
Redemptions of investment securities, held to maturity	106,100	15,000
Capital expenditures	( 1,400)	( 4,900)
Proceeds from sale of assets	800	-
Purchase of intangible assets	( 600)	-
	-----	-----
Net cash provided by investing activities	113,100	57,700
	-----	-----
Financing activities;		
exercise of stock options	2,900	-
	-----	-----
Net increase (decrease) in cash and cash equivalents	92,900	( 68,100)
Cash and cash equivalents, beginning of year	296,800	275,400
	-----	-----
Cash and cash equivalents, end of period	\$ 389,700	\$ 207,300
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 23,100	\$ 4,200

See notes to condensed unaudited consolidated financial statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY  
NOTES TO CONDENSED UNAUDITED 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.

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Reference is made to the financial statements contained within the Form 10-KSB for the fiscal year ended June 30, 2002 of Scientific Industries, Inc., (the "Company").

The statements as of and for the three months ended September 30, 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 months ended September 30, 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 period. Components of inventory are as follows:

	September 30, 2002
	-----
Raw Materials	\$ 572,100
Work in process	93,700
Finished Goods	96,300
	-----
	\$ 762,100
	=====

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	
	September 30, 2002	September 30, 2001
	-----	-----
Net income	\$ 6,600	\$ 50,500
	=====	=====
Weighted average common shares outstanding	950,639	895,540
Effect of dilutive securities	49,199	118,196
	-----	-----

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Weighted average dilutive common shares outstanding	999,838 =====	1,013,736 =====
Net income per common share - basic	\$ .01 =====	\$ .06 =====
Net income per common share - diluted	\$ .01 =====	\$ .05 =====

Unexercised employee stock options to purchase 59,000 shares of common stock at \$1.88 to \$2.40 per share were outstanding as of September 30, 2002, but were not included in the foregoing potential computation because the options' exercise price was 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 month periods ended September 30, 2002 and 2001.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Liquidity and Capital Resources

The Company's working capital as of September 30, 2002 increased \$83,300 to \$1,614,700 compared to \$1,531,400 at June 30, 2002, due primarily to increased accounts receivable and inventories. Inventories of raw components were higher due to lower sales and purchase of greater quantities of certain components from overseas to obtain lower unit costs. 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, 2003 and carries interest at prime plus 1%, all of which was available as of September 30, 2002. Management believes that the Company will be able to meet its cash flow needs during the next 12 months ending September 30, 2003 from its available financial resources which include its cash and investment securities.

#### Results of Operations

The Three Months Ended September 30, 2002 Compared with the Three Months Ended September 30, 2001.

The Company's net sales for the three months ended September 30, 2002 decreased \$71,000 (7.8%) from \$921,300 for the three months ended September 30, 2001 to \$850,300, principally the result of lower sales of the Company's principal product, the Vortex-Genie 2 (registered trademark) Mixer, to foreign and domestic distributors, which the Company began experiencing in the last quarter of the fiscal year ended June 30, 2002 ("fiscal 2002"). This appears to be due to increasing competitive pressures for the mixer and general economic conditions. This quarter's net sales were, however, higher than sales for the fourth quarter of fiscal 2002. The gross profit of \$347,800 for the three months ended September 30, 2002 decreased slightly to 40.9% from 42.5% or \$391,900 for the three months ended September 30, 2001 as a result of the lower sales. Moreover, gross sales of new products, which consists of the

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Enviro-Genie (registered trademark), Roto-Shake Genie (registered trademark,) Timer Genie (trademark), Disruptor Genie (trademark), and Genie 1 (trademark) increased by \$24,000 (32%) from \$73,500 for the three months ended September 30, 2001 to \$97,500 for the three months ended September 30, 2002.

General and administrative expenses for the three months ended September 30, 2002 increased by \$18,200 (8.9%) to \$224,700 compared to \$206,500 for the three months ended September 30, 2001, primarily due to costs incurred in connection with the former CEO's employment termination.

Research and development expenses increased by \$8,400 (10.6%) to \$87,400 for the three months ended September 30, 2002 from \$79,000 for the comparable prior period as a result of costs incurred in connection with the engagement of an outside engineering firm, which is expected to be more cost beneficial compared to the in-house engineering labor which it replaced.

As a result of lower sales, higher general and administrative, and research and development costs, the Company had net income of \$6,600 for the three months ended September 30, 2002 compared to \$50,500 for the three months ended September 30, 2001.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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

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) Exhibit Number: Description

99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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(b) Reports on Form 8-K: On August 30, 2002, the Company filed a Current Report on Form 8-K with the Commission, disclosing the termination of Mr. Lowell A. Kleiman's employment as President and Chief Executive Officer, the appointment of Ms. Helena Santos as President, Chief Executive Officer and Treasurer and Mr. Robert Nichols as Executive Vice President and Secretary, and the amendment of the Company's Bylaws.

SIGNATURE

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

Date November 13, 2002

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/s/ Helena R. Santos

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Helena R. Santos  
President, Chief Executive Officer  
and Treasurer  
Principal Executive, Financial and  
Accounting Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. ss.1350  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Helena R. Santos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Scientific Industries, Inc.;



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2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the registrant's board of directors:

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 13, 2002

By: /s/Helena R. Santos

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Helena R. Santos, Chief Executive  
Officer and Chief Financial Officer

EXHIBIT 99.1

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CERTIFICATION OF CHIEF FINANCIAL OFFICER AND CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Scientific Industries, Inc. (the "Company") for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Helena R. Santos, Chief Executive Officer, and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/Helena R. Santos

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Helena R. Santos  
President, Chief Executive Officer, Treasurer and  
Chief Financial Officer

Date: November 13, 2002