

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC  
Form 10QSB  
November 13, 2003

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, 2003

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, 2003: 960,541 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 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS	September 30, 2003	
	-----	
Current Assets:		
Cash and cash equivalents	\$ 301,300	
Investment securities		606,400
Trade accounts receivable, less allowance for doubtful accounts of \$7,400	447,800	
Inventories	553,100	
Prepaid expenses and other current assets	49,100	
	-----	
Total current assets	1,957,700	
Property and equipment at cost, less accumulated depreciation of \$407,600	153,300	
Deferred taxes	113,600	
Intangible assets, less accumulated amortization of \$38,100	14,200	
Other	75,500	
	-----	
	\$2,314,300	
	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 102,500	
Accrued expenses		148,900
	-----	
Total current liabilities	251,400	
	-----	
Deferred compensation	43,800	
	-----	
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 980,343 issued and outstanding		49,000
Additional paid-in capital	971,200	
Accumulated other comprehensive gain, unrealized holding gain on investment securities	1,200	
Retained earnings	1,050,100	
	-----	
	2,071,500	
Less common stock held in treasury, at cost, 19,802 shares	52,400	
	-----	
	2,019,100	
	-----	
	\$2,314,300	
	=====	

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended	
	September 30, 2003	September 30, 2002
	-----	-----
Net sales	\$ 873,900	\$ 850,300
Cost of goods sold	464,900	502,500
	-----	-----
Gross profit	409,000	347,800
	-----	-----
Operating Expenses:		
General and administrative	164,100	224,700
Selling	99,900	31,800
Research and development	102,600	87,400
	-----	-----
	366,600	343,900
Income from operations	42,400	3,900
Interest and other income	2,600	4,100
	-----	-----
Income before income taxes	45,000	8,000
Income taxes	15,000	1,400
	-----	-----
Net income	\$ 30,000	\$ 6,600
	=====	=====
Net income per common share - basic	\$ .03	\$ .01
Net income per common share - diluted	\$ .03	\$ .01

See notes to unaudited condensed consolidated financial statements

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

For the Three Month Periods Ended  
September 30, 2003    September 30, 2002

Operating activities:

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Net income	\$ 30,000	\$ 6,600
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Gain) loss on sale of investments	800	( 600)
Loss on disposal of asset	-	200
Depreciation and amortization	17,200	16,500
Change in assets and liabilities:		
Accounts receivable	( 38,200)	( 75,300)
Inventories	29,100	( 83,000)
Prepaid expenses and other current assets	15,500	17,000
Other assets	( 100)	3,800
Accounts payable	44,400	82,000
Accrued expenses	22,600	9,700
Total adjustments	91,300	( 29,700)
Net cash provided by (used in) operating activities	121,300	( 23,100)
Investing activities:		
Purchase of investment securities, available for sale	( 1,800)	( 44,400)
Redemptions of investment securities, available-for-sale	30,000	52,600
Redemptions of investment securities, held to maturity	60,000	106,100
Capital expenditures	( 15,800)	( 1,400)
Proceeds from sale of assets	-	800
Purchase of intangible assets	-	( 600)
Net cash provided by investing activities	72,400	113,100
Financing activities;		
exercise of stock options	-	2,900
Net increase in cash and cash equivalents	193,700	92,900
Cash and cash equivalents, beginning of year	107,600	296,800
Cash and cash equivalents, end of period	\$ 301,300	\$ 389,700
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 200	\$ 23,100

See notes to unaudited condensed consolidated financial statements

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

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the

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Securities and Exchange Commission's rules and regulations for reporting on Form 10-QSB. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003. The results for the three months ended September 30, 2003, are not necessarily an indication of the results for 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, 2003
	-----
Raw Materials	\$ 461,300
Work in process	8,000
Finished Goods	83,800
	-----
	\$ 553,100
	=====

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, 2003	September 30, 2002
	-----	-----
Net income	\$ 30,000	\$ 6,600
	=====	=====

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Weighted average common shares outstanding	960,541	950,639
Effect of dilutive securities	28,959	49,199
	-----	-----
Weighted average dilutive common shares outstanding	989,500	999,838
	=====	=====
Net income per common share - basic	\$ .03	\$ .01
	=====	=====
Net income per common share - diluted	\$ .03	\$ .01
	=====	=====

Unexercised employee stock options to purchase 56,000 and 59,000 shares of Common Stock at \$1.875 to \$2.40 per share were outstanding as of September 30, 2003 and 2002, respectively, but were not included in the foregoing computation because the exercise price of each option was greater than the average market price of the Company's Common Stock for the related periods.

#### 4. Comprehensive Income:

There was no significant difference between net income and comprehensive income for the three month periods ended September 30, 2003 and 2002.

#### 5. Stock-Based Compensation Plans

As of September 30, 2003, the Company maintains an Incentive Stock Option Plan. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based compensation costs are reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

For the Three Month Periods Ended  
September 30, 2003    September 30, 2002

Net income:		
As reported	\$ 30,000	\$ 6,600
Pro Forma	29,700	6,600
Net income per common and common equivalent share:		
Basic - as reported	\$ .03	\$ .01
Basic - pro forma	\$ .03	\$ .01
Diluted - as reported	\$ .03	\$ .01
Diluted - pro forma	\$ .03	\$ .01

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

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Certain statements contained in this report are not based on historical facts, but are forward-looking statements that are based upon various assumptions about future conditions. Actual events in the future could differ materially from those described in the forward-looking information. Numerous unknown factors and future events could cause such differences, including but not limited to, product demand, market acceptance, impact of competition, the ability to reach final agreements, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control. Consequently, no forward-looking statement can be guaranteed.

We do not undertake any obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

### Liquidity and Capital Resources

The Company's cash and cash equivalents, and short-term investments increased from \$803,000 at the end of fiscal year 2003 to \$907,700 at September 30, 2003, principally as a result of cash provided from operations. The Company's working capital as of September 30, 2003 increased \$31,300 to \$1,706,300 compared to \$1,675,000 at June 30, 2003. The Company had available for its working capital needs, a secured bank line of credit of \$200,000 with North Fork Bank and carried interest at prime plus 1%, all of which was available as of September 30, 2003. The line was renewed on November 1, 2003 through November 1, 2004 and carries an interest rate of prime. Management believes that the Company will be able to meet its cash flow needs during the 12 months ending September 30, 2004 from its available financial resources which include its cash and investment securities.

### Results of Operations

#### Financial Overview

Sales for the first quarter of fiscal year 2004 benefitted from new product sales - especially the Disruptor Genie (trademark) Vortex-Genie (registered trademark)<sup>1</sup>, and Vortex-Genie 2T. New product sales were \$134,800 compared to \$97,500 for the comparable period last year. In addition, sales of the Company's principal product, the Vortex-Genie 2 mixer, were only minimally lower than the prior year's comparable quarter and significantly higher than sales for each of the quarters ended March 31, 2003 and June 30, 2003.

The Three Months Ended September 30, 2003 Compared with the Three Months Ended September 30, 2002.

The Company's net sales for the three months ended September 30, 2003 increased \$23,600 (2.8%) from \$850,300 for the three months ended September 30, 2002 to \$873,900, the result of increased sales of the Company's new products partially offset by only a 1% decline in net sales of the Vortex-Genie 2 mixer. The gross profit of \$409,000 as a percentage of revenues for the three months ended September 30, 2003 increased to 46.8% from 40.9% or \$347,800 for the three months ended September 30, 2002 as a result of lower overhead and reduction in the costs of certain material components which are now purchased from overseas.

General and administrative expenses for the three months ended September 30, 2003 decreased by \$60,600 (27.0%) to \$164,100 compared to \$224,700

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for the three months ended September 30, 2002. The prior year period included costs incurred in connection with the termination of employment in August 2002 of the then Chief Executive Officer including his salary, certain benefits, and legal costs related to the termination.

Selling expenses for the three months ended September 30, 2003 increased \$68,100 (214%) to \$99,900, as compared to \$31,800 for the three months ended September 30, 2002, as a result of the Company's expansion of its sales and marketing functions including the hiring of a new director of sales and marketing in January 2003, and advertising and other marketing expenses.

Research and development expenses increased by \$15,200 (17.4%) to \$102,600 for the three months ended September 30, 2003 from \$87,400 for the comparable prior year period as a result of increased new product development.

As a result of the foregoing, the Company's income before income taxes increased \$37,000 (463%) to \$45,000 for the three months ended September 30, 2003 compared to \$8,000 for the three months ended September 30, 2002.

Income taxes of \$15,000 for the three months ended September 30, 2003 increased by \$13,600 from \$1,400 for the comparable period last year as a result of higher income for the period.

### PART II - OTHER INFORMATION

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Number:	Description
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#### SIGNATURE

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.

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Registrant

Date November 13, 2003

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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