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SCIENTIFIC INDUSTRIES INC
Form 10QSB
February 13, 2004

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 DECEMBER 31, 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 as specified in its charter)

Delaware 04-2217279
(State of incorporation) (IRS 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 6, 2004: 963,541 shares
outstanding of the Company's Common Stock, par value, \$.05.

Transitional Small Business Disclosure Format (check one):

Yes [] No [x]

PART I--FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

ASSETS

December 31, 2003

Current Assets:	
Cash and cash equivalents	\$ 288,300
Investment securities	701,700
Trade accounts receivable, less allowance for doubtful accounts of \$7,400	434,400
Inventories	555,200
Prepaid expenses and other current assets	49,400

Total current assets	2,029,000

Property and equipment at cost, less accumulated depreciation of \$423,400	159,500

Other assets and deferred charges:	
Intangible assets, less accumulated amortization of \$39,400	12,900
Deferred Taxes	113,600
Other	83,700

	210,200

	\$2,398,700
=====	
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	\$ 48,100
Accrued expenses	217,800

Total current liabilities	265,900

Deferred compensation	52,100

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	2,100
Retained earnings	1,110,800

	2,133,100
Less common stock held in treasury, at cost; 19,802 shares	52,400

	2,080,700

	\$2,398,700
=====	

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2003	2002	2003	2002
Net sales	\$869,700	\$833,700	\$1,743,600	\$1,684,000
Cost of goods sold	468,200	494,600	933,100	997,100
Gross profit	401,500	339,100	810,500	686,900
Operating Expenses:				
General & administrative	162,900	246,100	327,000	470,800
Selling	78,600	44,800	178,500	76,600
Research & development	83,800	56,900	186,400	144,300
	325,300	347,800	691,900	691,700
Income (Loss) from operations	76,200	(8,700)	118,600	(4,800)
Interest & other income	4,500	400	7,100	4,500
Income (loss) before income taxes (benefit)	80,700	(8,300)	125,700	(300)
Income taxes (benefit)	20,000	(1,400)	35,000	-
Net income (loss)	\$ 60,700	\$ (6,900)	\$ 90,700	\$ (300)
Net income (loss) per common share - basic	\$.06	\$ (.01)	\$.09	\$.-
Net income (loss) per common share - diluted	\$.06	\$ (.01)	\$.09	\$.-

See notes to unaudited condensed consolidated financial statements

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

For the Six Month Periods Ended
December 31, 2003 December 31, 2002

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Operating activities:		
Net income (loss)	\$ 90,700	\$ (300)
Adjustments to reconcile net income		
(loss) to net cash provided by (used in)		
operating activities:		
(Gain) loss on sale of investments	800	(600)
Loss on disposal of assets	-	6,400
Depreciation and amortization	34,900	33,700
Change in assets and liabilities:		
Accounts receivable	(24,800)	
(121,100)		
Inventories	27,000	(21,300)
Prepaid expenses and other		
current assets	15,200	14,400
Other assets	(8,300)	13,000
Accounts payable	(10,000)	31,900
Accrued expenses	91,500	(16,400)
Deferred compensation	8,300	(8,500)
Total adjustments	134,600	(68,500)
	-----	-----
Net cash provided by (used in)		
operating activities	225,300	(68,800)
	-----	-----
Investing activities:		
Purchase of investment securities,		
available-for-sale	(137,700)	(180,900)
Redemptions of investment securities,		
available-for-sale	30,000	52,600
Redemptions of investment securities,		
held to maturity	100,800	105,600
Capital expenditures	(37,700)	(45,500)
Proceeds from sale of property		
and equipment	-	29,800
Purchase of intangible assets	-	(3,400)
	-----	-----
Net cash used in		
investing activities	(44,600)	(41,800)
	-----	-----
Financing activities,		
exercise of stock options	-	3,700
	-----	-----
Net increase (decrease) in cash		
and cash equivalents	180,700	(106,900)
Cash and cash equivalents, beginning of year	107,600	296,800
	-----	-----
Cash and cash equivalents, end of period	\$ 288,300	\$ 189,900
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 200	\$ 28,400

See notes to unaudited condensed consolidated financial statements

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General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the 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 and six months ended December 31, 2003, 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. Line of Business and Concentrations:

The Company is engaged in the manufacturing and marketing of equipment for research in university, hospital and industrial laboratories. The Company believes that it has only one reportable segment. Sales of the Company's principal product, the Vortex-Genie(R) 2 mixer, accounted for approximately 74% and 86% of net sales for the three month periods ended December 31, 2003 and 2002, respectively, and 76% and 84% of net sales for the six month periods ended December 31, 2003 and 2002, respectively.

The Company's export sales (principally Europe and Asia) were approximately \$405,000 and \$480,000 for the three month periods ended December 31, 2003 and 2002, respectively, and \$752,000 and \$882,000 for the six month periods ended December 31, 2003 and 2002, respectively.

Three of the Company's customers accounted in the aggregate for 55% and 47% of net sales for the three month periods ended December 31, 2003 and 2002, respectively, and 57% and 50% of total net sales for the six month periods ended December 31, 2003 and 2002, respectively.

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3. 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, 2003
Raw Materials	\$ 469,600
Work in process	33,500
Finished Goods	52,100

	\$ 555,200
	=====

4. Net income (loss) per common share:

Basic net income (loss) per common share is computed by dividing net income (loss) 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 (loss) per common share was computed as follows:

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2003	2002	2003	2002
Net income (loss)	\$ 60,700	(\$6,900)	\$ 90,700	(\$ 300)
	=====	=====	=====	=====
Weighted average common shares outstanding	960,541	954,541	960,541	952,591
Effect of dilutive securities	45,279	-	37,119	-
	-----	-----	-----	-----
Weighted average dilutive common shares outstanding	1,005,820	954,541	997,660	952,591
	=====	=====	=====	=====
Net income (loss) per common share - basic	\$.06	(\$.01)	\$.09	\$ -
	=====	=====	=====	=====
Net income (loss) per common share - diluted	\$.06	(\$.01)	\$.09	\$ -
	=====	=====	=====	=====

Unexercised employee stock options to purchase 44,000 shares of common stock at \$1.92 to \$2.40 per share were outstanding as of December 31, 2003, 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 period.

The potential effect of dilution of the incremental shares from the assumed exercise of stock options was not included in determining the diluted net loss per common share for the three and six month periods ended December 31, 2002, because to do so would be anti-dilutive.

5. Comprehensive Income:

There was no significant difference between net income (loss) and comprehensive income (loss) for the three and six month periods ended December 31, 2003 and 2002.

6. Stock-Based Compensation Plans:

The Company maintains an Incentive Stock Option Plan which it accounts for 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 or loss, 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 (loss) and earnings (loss) 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 December 31,		For the Six Month Periods Ended December 31,	
	2003	2002	2003	2002
Net income (loss):				
As reported	\$ 60,700	(\$ 6,900)	\$ 90,700	(\$ 300)
Pro Forma	57,600	(7,200)	87,400	(600)
Net income (loss) per common and common equivalent share:				
Basic - as reported	\$.06	(\$.01)	\$.09	\$ -
Basic - pro forma	\$.06	(\$.01)	\$.09	\$ -
Diluted - as reported	\$.06	(\$.01)	\$.09	\$ -
Diluted - pro forma	\$.06	(\$.01)	\$.09	\$ -

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

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,

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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 undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Liquidity and Capital Resources

Net cash provided by operating activities was \$225,300 for the six month period of the current fiscal year as compared to \$68,800 used in the comparative period for 2002. The principal factors accounting for the difference were (i) lower increase in accounts receivable by \$96,300 because of a few unusually large sales to a foreign customer during the three months ended December 31, 2002, (ii) a difference of \$48,300 in inventories due to higher sales and tighter inventory controls during the current year period and (iii) a \$107,900 increase in accrued expenses mainly due to customer allowances and income tax accruals. Cash used in investing activities was \$44,600 for the current period as compared to \$41,800 for the six months ended December 31, 2002 reflecting lesser purchases of investment securities during the current year and a sale in the prior year period of a previously leased auto related to the termination of the Company's former chief executive officer. The Company does not ordinarily have any significant financing activities other than exercises of incentive stock options. As a result of the foregoing, cash and cash equivalents increased by \$180,700 to \$288,300 as of December 31, 2003 from a balance of \$107,600 as of June 30, 2003.

The Company's working capital as of December 31, 2003 increased \$88,100 to \$1,763,100 compared to \$1,675,000 at June 30, 2003. The increase was generated from operations. 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, 2004 with interest at prime, all of which was available as of December 31, 2003. Management believes that the Company will be able to meet its cash flow needs during the next 12 months from its available financial resources which include its cash and investment securities.

Results of Operations

Financial Overview

Operations for the three and six month periods ended December 31, 2003 benefitted from both the significant increase in sales of our new products, especially our Disruptor Genie(TM), Vortex-Genie(R) 1, and Vortex-Genie 2T, and cost savings resulting from the increasing overseas purchases of more material components of our principal product. New product sales amounted to \$178,900 and \$313,700 for the three and six month periods ended December 31, 2003 as compared to \$75,600 and \$171,300 for the comparable periods last year. Net sales of the Company's principal product, the Vortex-Genie 2 mixer, were lower than the prior year's comparable three and six month periods. This reduction was due to the larger than usual orders from an overseas customer for the mixer during the three months ended December 31, 2002.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

The Three Months Ended December 31, 2003 Compared with the Three Months Ended December 31, 2002.

The Company's net sales for the three months ended December 31, 2003 of \$869,700, an increase of \$36,000 (4.3%) from \$833,700 for the three months ended December 31, 2002, was primarily the result of increased sales of the Company's new products. Gross profit of \$401,500 for the three months ended December 31, 2003, an increase to 46.2% from 40.7% or \$339,100 for the three months ended December 31, 2002, was primarily due to increased overseas purchases of material components for the Vortex-Genie 2 mixer at lower cost, and the change in the sales mix to more new products with higher profit margins.

General and administrative expenses for the three months ended December 31, 2003 decreased by \$83,200 (33.8%) to \$162,900 compared to \$246,100 for the three months ended December 31, 2002. The prior year period included \$72,300 of proxy costs incurred in the successful defense of a proxy contest initiated by the Company's former chief executive officer ("former CEO") as well as certain other costs incurred in connection with his termination of employment in August 2002.

Selling expenses for the three months ended December 31, 2003 increased \$33,800 (75.4%) to \$78,600, as compared to \$44,800 for the three months ended December 31, 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, advertising and other marketing expenses.

Research and development expenses increased by \$26,900 (47.3%) to \$83,800 for the three months ended December 31, 2003 from \$56,900 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 \$89,000 to \$80,700 for the three months ended December 31, 2003 compared to a \$8,300 loss for the three months ended December 31, 2002.

Income tax expense for the three months ended December 31, 2003 was \$20,000 as a result of the income for the period compared to a \$1,400 tax benefit for the comparable period last year resulting from the loss suffered during that period.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

The Six Months Ended December 31, 2003 Compared with the Six Months Ended December 31, 2002.

Net sales increased \$59,600 (3.5%) to \$1,743,600 for the six months ended December 31, 2003 compared to \$1,684,000 for the six months ended December 31, 2002 primarily due to higher sales of the Company's new products.

The gross profit of 46.5% for the six months ended December 31, 2003, was higher than the gross profit of 40.8% for the six months ended December 31, 2002 primarily due to increased overseas purchases of material components for the Vortex-Genie 2 mixer at lower cost, and the change in the sales mix to more new products with higher profit margins.

General and administrative expenses for the six months ended December 31, 2003 were \$327,000, a decrease of \$143,800 (30.5%) from \$470,800 for the six months ended December 31, 2002 mostly because the prior year included \$72,300 of proxy costs incurred in connection with the proxy contest initiated by the former CEO, and costs incurred in connection with his termination of employment in August 2002.

Selling expenses for the six months ended December 31, 2003 increased \$101,900 (133%) to \$178,500, from \$76,600 for the six months ended December 31, 2002, the 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, advertising and other marketing activities.

Research and development expenses increased by \$42,100 (29.2%) to \$186,400 for the six months ended December 31, 2003 from \$144,300 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 was \$125,700 for the six months ended December 31, 2003 compared to a loss of \$300 for the six months ended December 31, 2002.

As a result of the income for the period, the six month results reflect income tax expense of \$35,000, while the prior comparable period did not reflect any income tax expense or benefit.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

PART II OTHER INFORMATION

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's 2003 Annual Meeting of Stockholders held on December 1, 2003, stockholders (i) re-elected as Class A Directors: Mr. Arthur M. Borden by 519,373 shares "For" and 156,448 shares "Withheld", and Mr. James S. Segasture by 522,844 shares "For" and 152,977 shares "Withheld", each to serve until the Annual Meeting of Stockholders with respect to the fiscal year ending June 30, 2006, and the due election and qualification of their successors; and (ii) ratified the appointment of Nussbaum Yates & Wolpov P.C. as the independent auditors with respect to the financial statements of the Company for the year ending June 30, 2004 by a vote of 669,491 shares "For", 6,557 shares "Against", and no shares abstaining.

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.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

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.

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Registrant

/s/Helena R. Santos

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

Date: February 13, 2004