

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC  
Form 10QSB  
November 10, 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 SEPTEMBER 30, 2004

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 October 31, 2004: 975,541 shares outstanding of the Company's Common Stock, par value, \$ .05.

Transitional Small Business Disclosure Format (check one):

Yes  No

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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, 2004

Current Assets:	
Cash and cash equivalents	\$ 221,600
Investment securities	872,300
Trade accounts receivable, less allowance for doubtful accounts of \$11,600	389,000
Inventories	663,700
Prepaid expenses and other current assets	49,900
Deferred taxes	62,300
	-----
Total current assets	2,258,800
Property and equipment at cost, less accumulated depreciation of \$400,900	151,700
Deferred taxes	25,500
Intangible assets, less accumulated amortization of \$42,600	15,600
Other	65,900
	-----
	\$2,517,500
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	\$ 67,700
Accrued expenses	155,100
Dividends payable	68,300
	-----
Total current liabilities	291,100
	-----
Deferred compensation	34,100
	-----
Shareholders' equity:	
Common stock, \$.05 par value; authorized 7,000,000 shares; 995,343 issued and outstanding	49,800
Additional paid-in capital	984,200
Accumulated other comprehensive loss, unrealized holding loss on investment securities	( 100)
Retained earnings	1,210,800
	-----
	2,244,700
Less common stock held in treasury, at cost, 19,802 shares	52,400
	-----
	2,192,300
	-----
	\$2,517,500
	=====

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See notes to unaudited condensed consolidated financial statements

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

For the Three Month Periods Ended  
September 30, 2004                      September 30, 2003

Net sales	\$ 851,800	\$ 873,900
Cost of goods sold	458,000	464,900
	-----	-----
Gross profit	393,800	409,000
	-----	-----
Operating Expenses:		
General and administrative	177,500	164,100
Selling	67,900	99,900
Research and development	78,400	102,600
	-----	-----
	323,800	366,600
	-----	-----
Income from operations	70,000	42,400
Interest and other income	6,600	2,600
	-----	-----
Income before income taxes	76,600	45,000
Income taxes, all current	18,000	15,000
	-----	-----
Net income	\$ 58,600	\$ 30,000
	=====	=====
Basic earnings per common share	\$ .06	\$ .03
Diluted earnings per common share	\$ .06	\$ .03
Cash dividends declared per common share	\$ .07	\$ .-

See notes to unaudited condensed consolidated financial statements

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

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For the Three Month Periods Ended  
September 30, 2004    September 30, 2003

Operating activities:

Net income	\$ 58,600	\$ 30,000
	-----	-----

Adjustments to reconcile net income  
to net cash provided by  
operating activities:

Loss on sale of investments	-	800
Depreciation and amortization	16,400	17,200
Change in assets and liabilities:		
Accounts receivable	( 200)	( 38,200)
Inventories	2,500	29,100
Prepaid expenses and other current assets	8,300	15,500
Other assets	6,900	( 100)
Accounts payable	( 8,300)	44,400
Accrued expenses and taxes	( 5,000)	22,600
Deferred compensation	( 1,900)	-
	-----	-----

Total adjustments	18,700	91,300
	-----	-----

Net cash provided by operating activities	77,300	121,300
	-----	-----

Investing activities:

Purchase of investment securities, available for sale	( 77,000)	( 1,800)
Purchase of investment securities, held to maturity	( 15,300)	-
Redemptions of investment securities, available-for-sale	-	30,000
Redemptions of investment securities, held to maturity	25,500	60,000
Capital expenditures	( 25,900)	( 15,800)
Purchase of intangible assets	( 4,400)	-
	-----	-----

Net cash provided by (used in) investing activities	( 97,100)	72,400
	-----	-----

Net increase (decrease) in cash and cash equivalents	( 19,800)	193,700
---	-----------	---------

Cash and cash equivalents, beginning of year	241,400	107,600
	-----	-----

Cash and cash equivalents, end of period	\$ 221,600	\$ 301,300
	=====	=====

Supplemental disclosures:

Cash paid during the period for:

Income Taxes	\$ 27,700	\$ 200
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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, 2004. The results for the three months ended September 30, 2004, 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. 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 73% and 80% of net sales for the three month periods ended September 30, 2004 and 2003, respectively.

The Company's export sales (principally Europe and Asia) were approximately \$313,600 and \$346,700 (36.8% and 39.6%, respectively, of net sales) for the three month periods ended September 30, 2004 and 2003, respectively.

Three of the Company's customers accounted in the aggregate for 50% and 59% of net sales for the three month periods ended September 30, 2004 and 2003, respectively.

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

### 3. Inventories:

Inventories for interim financial statement purposes are based on perpetual inventory records at the end of the applicable

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period. Components of inventory are as follows:

	September 30, 2004
Raw Materials	\$ 584,000
Work in process	16,300
Finished Goods	63,400
	\$ 663,700
	=====

#### 4. Earnings per common share:

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

Earnings per common share was computed as follows:

	For the Three Month Periods Ended	
	September 30, 2004	September 30, 2003
Net income	\$ 58,600	\$ 30,000
	=====	=====
Weighted average common shares outstanding	975,541	960,541
Effect of dilutive securities	69,138	28,959
	-----	-----
Weighted average dilutive common shares outstanding	1,044,679	989,500
	=====	=====
Basic earnings per common share	\$ .06	\$ .03
	=====	=====
Diluted earnings per common share	\$ .06	\$ .03
	=====	=====

Unexercised employee stock options to purchase 56,000 shares of Common Stock at \$1.875 to \$2.40 per share were outstanding as of September 30, 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 related period. All options outstanding as of September 30, 2004 were included in the foregoing computation.

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

#### 5. Comprehensive Income:

There was no significant difference between net income and comprehensive income for the three month periods ended

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September 30, 2004 and 2003.

### 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, as all options granted under those plans had an exercise price equal to the fair 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, 2004	September 30, 2003
	-----	-----
Net income:		
As reported	\$ 58,600	\$ 30,000
Pro Forma	58,100	29,700
Earnings per common and common equivalent share:		
Basic - as reported	\$ .06	\$ .03
Basic - pro forma	\$ .06	\$ .03
Diluted - as reported	\$ .06	\$ .03
Diluted - pro forma	\$ .06	\$ .03

### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

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

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.

#### Financial Overview

The first quarter of fiscal year ending June 30, 2005 ("Fiscal 2005") produced higher net income of \$58,600, an increase of \$28,600 over the prior year's comparable quarter, principally as a result of lower selling and research and development expenses which overcame a \$22,100 decrease in net sales for the comparable

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quarter last year. Sales for the quarter ended September 30, 2004 were impacted by slightly lower overseas sales during the quarter. New product sales continued their growth registering an 18% increase compared to those for the quarter ended September 30, 2003. Another new product, the Microplate Genie(TM) mixer, was introduced during the first quarter of Fiscal 2005.

### Results of Operations

The Three Months Ended September 30, 2004 Compared with the Three Months Ended September 30, 2003

The Company's net sales for the three months ended September 30, 2004 (the "2004 Quarter") decreased \$22,100 (2.5%) to \$851,800 from \$873,900 for the three months ended September 30, 2003 (the "2003 Quarter"), primarily the result of a reduction in sales to overseas customers in July and August. Sales of new products (excluding accessories) for the 2004 Quarter were \$158,900, which was \$24,100 (17.9%) more than sales of \$134,800 for the 2003 Quarter. There was no material difference in the gross profit percentages for the 2004 Quarter (46.2%) and 2003 Quarter (46.8%).

General and administrative expenses for the 2004 Quarter was \$177,500, an increase of \$13,400 (8.2%) from \$164,100 for the 2003 Quarter, due primarily to higher salaries and legal expenses.

### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

Selling expenses of \$67,900 for the 2004 Quarter were \$32,000 (32.0%) lower than \$99,900 for the 2003 Quarter, mainly the result of the absence of expenses incurred in the prior year period for training outside sales representatives and new website development costs incurred in the prior year period.

Research and development expenses for the 2004 Quarter of \$78,400 were lower by \$24,200 (23.6%) than \$102,600 of such expenses for the 2003 Quarter as a result of the significant development work for the new MicroPlate Genie(TM) mixer in the prior year period.

As a result of the foregoing, the Company's income before income taxes was \$76,600 as compared to \$31,600 for the 2004 Quarter, which was \$45,000 (70.2%) greater than \$31,600 for the 2003 Quarter.

As a result of the higher net income, income taxes were \$18,000 for the 2004 Quarter as compared to \$15,000 for the comparable period last year.

### Liquidity and Capital Resources

Net cash provided by operating activities was \$77,300 for the 2004 Quarter as compared to \$121,300 for the 2003 Quarter principally due to:

(i) The smaller increase in accounts receivable of \$38,000 due to the high sales volume to foreign customers at the end of September 30, 2003, (ii) a smaller amount of raw materials as of September 30, 2003 producing a \$26,600 reduction between the quarters, and (iii) an increase in the change in accounts payable of \$52,700 as of September 30, 2003 compared to the amount as of September 30, 2004 due to a few large one-time invoices outstanding as of September 30, 2003. The foregoing amounts were partially offset



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by the comparative \$28,600 increase in net income for the 2004 Quarter. Cash used in investing activities was \$97,100 for the 2004 Quarter compared to cash provided of \$72,400 for the comparative period last year. This was due principally to the purchase of investment securities, and less redemptions during the 2004 Quarter. Cash and cash equivalents decreased by \$19,800 to \$221,600 as of September 30, 2004 from a balance of \$241,400 as of June 30, 2004.

On September 21, 2004, the Board of Directors of the Company declared a cash dividend of \$.07 per share of Common Stock payable on January 14, 2005 to holders of record as of the close of business on October 20, 2004.

The Company's working capital decreased \$15,600 to \$1,967,700 from \$1,983,300 at June 30, 2004, primarily the result of the cash dividend declared, partially offset by the Company's profitable operations. The Company has available a secured bank line of credit of \$200,000 with North Fork Bank with interest at prime, which was due to expire on November 1, 2004, but has been extended indefinitely for as long as the Company is in compliance with all loan requirements, including payments and covenants. The Company has never borrowed under this line of credit. Management believes that it will be able to meet its cash flow requirements during the next 12 months from all its available financial resources.

### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

#### 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.

##### (b) Reports on Form 8-K:

Registrant filed reports on Form 8-K on September 1, 2004 and September 2, 2004 reporting under Item 1.01, Entry into a Material Definitive Agreement, and on September 23, 2004 under Item 8.01, Other Events.

SIGNATURE

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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 November 10, 2004

/s/Helena R. Santos

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