

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC
Form 10QSB
May 16, 2005

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, 2005

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 May 6, 2005: 980,207 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

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

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

ASSETS

March 31, 2005

Current Assets:

Cash and cash equivalents	\$ 120,900
Investment securities	965,400
Trade accounts receivable, less allowance for doubtful accounts of \$11,600	534,800
Inventories	728,800
Prepaid expenses and other current assets	44,900
Deferred taxes	57,000

Total current assets	2,451,800
----------------------	-----------

Property and equipment at cost, less accumulated depreciation of \$428,700	150,600
---	---------

Other assets and deferred charges:

Intangible assets, less accumulated amortization of \$45,300	17,500
Other	39,600
	57,100

\$2,659,500

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$ 66,900
Accrued expenses and taxes	212,900
	279,800

Deferred compensation	18,900
-----------------------	--------

Deferred taxes	13,000
----------------	--------

Shareholders' equity:

Common stock \$.05 par value; authorized 7,000,000 shares; 1,000,009 issued and outstanding	50,000
Additional paid-in capital	990,900
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(7,000)
Retained earnings	1,366,300

2,400,200

Less common stock held in treasury, at cost; 19,802 shares	52,400
---	--------

2,347,800

\$2,659,500

See notes to unaudited condensed consolidated financial statements

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2005	2004	2005	2004
	-----	-----	-----	-----
Net sales	\$ 996,300	\$856,900	\$2,693,200	\$2,600,500
Cost of goods sold	478,700	455,100	1,369,700	1,379,900
	-----	-----	-----	-----
Gross profit	517,600	401,800	1,323,500	1,220,600
	-----	-----	-----	-----
Operating Expenses:				
General and administrative	176,200	170,100	521,600	497,100
Selling	75,500	69,900	224,700	248,400
Research and development	109,000	93,800	279,400	288,500
	-----	-----	-----	-----
	360,700	333,800	1,025,700	1,034,000
	-----	-----	-----	-----
Income from operations	156,900	68,000	297,800	186,600
Interest and other income, net	1,600	5,600	16,100	12,700
	-----	-----	-----	-----
Income before income taxes	158,500	73,600	313,900	199,300
	-----	-----	-----	-----
Income tax expense:				
Current	42,000	25,000	56,000	60,000
Deferred	21,800	-	43,800	-
	-----	-----	-----	-----
	63,800	25,000	99,800	60,000
	-----	-----	-----	-----
Net income	\$ 94,700	\$ 48,600	\$ 214,100	\$ 139,300
	=====	=====	=====	=====
Basic earnings per common share	\$.10	\$.05	\$.22	\$.14
Diluted earnings per common share	\$.09	\$.05	\$.20	\$.14
Cash dividends declared per common share	\$ -	\$.05	\$.07	\$.05

See notes to unaudited condensed consolidated financial statements

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

2

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

	For the Nine Month Periods Ended	
	March 31, 2005	March 31, 2004
	-----	-----
Operating activities:		
Net income	\$ 214,100	\$139,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of investments	1,300	800
Loss on disposal of assets	-	200
Depreciation and amortization	49,200	52,100
Deferred income taxes	43,800	-
Income tax benefit of stock options exercised	1,000	-
Change in assets and liabilities:		
Accounts receivable	(146,000)	(31,300)
Inventories	(62,600)	(40,800)
Prepaid expenses and other current assets	13,300	14,000
Other assets	33,200	9,000
Accounts payable	(9,100)	36,400
Accrued expenses and taxes	52,800	80,200
Deferred compensation	(17,100)	(9,100)
	-----	-----
Total adjustments	(40,200)	111,500
	-----	-----
Net cash provided by operating activities	173,900	250,800
	-----	-----
Investing activities:		
Purchase of investment securities, available for sale	(163,800)	(171,600)
Purchase of investment securities, held to maturity	(113,500)	-
Redemptions of investment securities, available-for-sale	53,200	92,600
Redemptions of investment securities, held to maturity	55,500	130,800
Capital expenditures	(54,300)	(49,400)
Proceeds from sale of fixed assets	-	200
Purchase of intangible assets	(9,100)	-
	-----	-----
Net cash provided by (used in) investing activities	(232,000)	2,600
	-----	-----
Financing activities:		
Exercise of stock options	5,900	12,900
Cash dividend declared and paid	(68,300)	(48,300)
	-----	-----
Net cash used in financing activities	(62,400)	(35,400)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(120,500)	218,000

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

Cash and cash equivalents, beginning of year	241,400	107,600
	-----	-----
Cash and cash equivalents, end of period	\$ 120,900	\$ 325,600
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 51,600	\$ 200

See notes to unaudited condensed consolidated financial statements

3

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

General: The accompanying unaudited interim 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 and nine months ended March 31, 2005, 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 which is 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 manufacture and marketing of equipment for research in university, hospital and industrial laboratories. The Company believes that it has only one reportable segment. Approximately 77.7% and 73.6% of net sales for the three and nine month periods ended March 31, 2005, respectively, were derived from the Company's main product, the Vortex-Genie 2(TM), compared to 75.6% and 77.4% in the comparable prior year periods.

The Company's export sales (principally Europe and Asia) were approximately \$448,400 and \$414,000 for the three month periods ended March 31, 2005 and 2004, respectively, and \$1,196,800 and \$1,165,800 for the nine month periods ended March 31, 2005 and

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

2004, respectively.

Three of the Company's customers accounted in the aggregate for 53% and 49% of net sales for the three month periods ended March 31, 2005 and 2004, respectively, and 51% and 54% of net sales for the nine month periods ended March 31, 2005 and 2004, respectively.

4

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

3. Inventories:

Inventories for interim financial statement purposes are based on perpetual inventory records. Components of inventory are as follows at March 31, 2005:

	March 31, 2005
Raw Materials	\$ 561,300
Work in process	39,700
Finished Goods	127,800
	\$ 728,800
	=====

4. Earnings per common share:

Basic earnings per common share are 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 were computed as follows:

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2005	2004	2005	2004
Net income	\$ 94,700	\$ 48,600	\$ 214,100	\$ 139,300
	=====	=====	=====	=====
Weighted average common shares outstanding	979,640	964,398	977,278	961,817
Effect of dilutive securities	74,972	72,676	73,547	48,971
	-----	-----	-----	-----
Weighted average dilutive common shares outstanding	1,054,612	1,037,074	1,050,825	1,010,788
	=====	=====	=====	=====
Basic earnings per common				

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

share	\$.10	\$.05	\$.22	\$.14
	=====	=====	=====	=====
Diluted earnings per common share	\$.09	\$.05	\$.20	\$.14
	=====	=====	=====	=====

All options and the warrant outstanding as of March 31, 2005 and 2004 were included in the foregoing computations.

5. Comprehensive Income:

There was no significant difference between net income and comprehensive income for the three and nine month periods ended March 31, 2005 and 2004.

5

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

6. Stock-Based Compensation Plans:

The Company maintains a 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 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 March 31,		For the Nine Month Periods Ended March 31,	
	2005	2004	2005	2004
Net income:				
As reported	\$ 94,700	\$48,600	\$214,100	\$139,300
Pro Forma	94,200	48,300	212,600	135,700
Earnings per common and common equivalent share:				
Basic - as reported	\$.10	\$.05	\$.22	\$.14
Basic - pro forma	\$.10	\$.05	\$.22	\$.14
Diluted - as reported	\$.09	\$.05	\$.20	\$.14
Diluted - pro forma	\$.09	\$.05	\$.20	\$.13

On December 16, 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004) that will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

instruments issued. In addition, liability awards will be measured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supercedes APB Opinion No. 25, accounting for Stock Issued to Employees. SFAS 123(R) is effective at the beginning of the next fiscal year that begins after December 15, 2005. The Company is currently assessing the impact of adopting SFAS 123(R).

6

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, product demand, market acceptance, success of marketing strategy, impact of competition, relationships with principal customers, 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 \$173,900 for the nine month period of the current fiscal year as compared to \$250,800 for the comparative period of the prior fiscal year. The principal factors accounting for the difference were higher accounts receivable at March 31, 2005 compared to year end, partially offset by higher net income for the current nine month period. Cash used in investing activities was \$232,000 for the current period as compared to \$2,600 provided in the nine months ended March 31, 2004 reflecting during the current year greater amounts of purchases of investment securities and a lower amount of redemptions. The principal reason that cash used in financing activities was \$62,400 compared to \$35,400 for the prior year period was the higher cash dividend paid in 2005. As a result of the foregoing, cash and cash equivalents decreased by \$120,500 to \$120,900 as of March 31, 2005 from a balance of \$241,400 as of June 30, 2004.

The Company's working capital as of March 31, 2005 increased \$188,700 to \$2,172,000 from \$1,983,300 at June 30, 2004. The increase was generated by profitable operations, partially offset by the cash dividend and capital expenditures. The Company has available for its working capital needs, a secured bank line of credit of \$200,000 with North Fork Bank with interest at prime,

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

all of which was available as of March 31, 2005. The Company has never borrowed under this line of credit. 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.

7

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

Results of Operations

Financial Overview

Income before income taxes increased 115% to \$158,500 for the three months ended March 31, 2005 compared to \$73,600 for the three months ended March 31, 2004 as a result of higher sales and a higher gross profit percentage. The increase in sales was principally the result of the fulfillment of the previously reported unusually high level of order backlog at December 31, 2004 due to a temporary supplier problem. The order backlog at the end of the current quarter was insignificant. The higher gross profit percentage arose primarily from lower material and overhead costs and, to some extent, certain price increases.

Income before income taxes increased 58% to \$313,900 for the nine months ended March 31, 2005 compared to \$199,300 for the three months ended March 31, 2004 also primarily as a result of higher sales due in large part to greater sales of new products and accessories and an increased gross profit percentage in the current nine month period for the reasons discussed above.

The Three Months Ended March 31, 2005 Compared with the Three Months Ended March 31, 2004.

Net sales for the three months ended March 31, 2005 increased by \$139,400 (16.3%) to \$996,300 as compared with \$856,900 for the three months ended March 31, 2004, primarily due to the fulfillment of the previously reported unusually high level of order backlog at the end of the prior quarter due to a temporary supplier problem. The gross profit was \$517,600 for the three months ended March 31, 2005, (a 52.0% gross profit margin) compared with \$401,800, (a 46.9% gross profit margin) for the three months ended March 31, 2004, due principally to lower material and overhead costs and to some extent, certain price increases.

General and administrative expenses for the three months ended March 31, 2005 increased slightly by \$6,100 (3.6%) to \$176,200 compared with \$170,100 for the prior year's quarter due primarily to increased salaries and insurance expenses.

Selling expenses for the three months ended March 31, 2005 increased \$5,600 (8.0%) to \$75,500 as compared to \$69,900 for the three months ended March 31, 2004, mainly due to expansion of marketing programs to include advertisements in various trade and distributor publications.

Research and development expenses increased by \$15,200 (16.2%) to

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

\$109,000 for the three months ended March 31, 2005 as compared with \$93,800 for the prior year period as a result of greater new product development efforts.

As a result of the foregoing, the Company's income before income taxes increased \$84,900 (115%) to \$158,500 for the three months ended March 31, 2005 compared to \$73,600 for the three months ended March 31, 2004.

In view of the higher income and increase in the effective tax rate, income tax expense for the three months ended March 31, 2005 increased to \$63,800 as compared with \$25,000 for the prior year's quarter.

8

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

The Nine Months Ended March 31, 2005 Compared with the Nine Months Ended March 31, 2004.

Net sales increased \$92,700 (3.6%) to \$2,693,200 for the nine months ended March 31, 2005 compared to \$2,600,500 for the nine months ended March 31, 2004, primarily due to increased sales of our new products and product accessories.

The gross profit margin of 49.1% for the nine months ended March 31, 2005, was higher than the gross profit margin of 46.9% for the nine months ended March 31, 2004 due mainly to lower material, labor, and overhead costs and to some extent, certain price increases.

General and administrative expenses for the nine months ended March 31, 2005 were \$521,600, an increase of \$4,500 (4.9%), as compared with \$497,100 for the nine months ended March 31, 2004 due primarily to increased salaries and insurance expenses.

Selling expenses for the nine months ended March 31, 2005 decreased \$23,700 (9.5%) to \$224,700, as compared with \$248,400 for the nine months ended March 31, 2004, due to lower advertising expenses during the first six months of the current year's nine month period and the new website and sales training expenses incurred last year.

Research and development expenses decreased slightly by \$9,100 (3.3%) to \$279,400 for the nine months ended March 31, 2005 as compared with \$288,500 for the comparable prior year period despite an overall increase in our research and development effort, which however, was more than offset by the significant expenditures incurred in the development of the new MicroPlate Genie(TM) during the first half of last fiscal year.

As a result of the foregoing, the Company's income before income taxes increased \$114,600 (57.5%) to \$313,900 for the nine months ended March 31, 2005 compared to \$199,300 for the nine months ended March 31, 2004.

As a result of the higher income and increase in the effective tax rate for the period, income tax expense was \$99,800, compared to \$60,000 for the prior year comparable period.

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Chief Executive and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms.

There was no change in the Company's internal controls over financial reporting that occurred during the most recent fiscal quarter that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

9

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:

During the three months ended March 31, 2005, Registrant filed a report on Form 8-K on March 23, 2005 reporting under Item 1.01, Entry into a Material Definitive Agreement.

10

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.
Registrant

/s/Helena R. Santos

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

Date: May 16, 2005