

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC  
Form 10QSB  
November 10, 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 SEPTEMBER 30, 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 October 28, 2005: 989,686 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

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

### ASSETS

September 30, 2005

Current Assets:	
Cash and cash equivalents	\$ 129,700
Investment securities	1,041,700
Trade accounts receivable, less allowance for doubtful accounts of \$11,600	552,500
Inventories	852,700
Prepaid expenses and other current assets	49,800
Deferred taxes	46,000
	-----
Total current assets	2,672,400
Property and equipment at cost, less accumulated depreciation of \$456,200	126,100
Intangible assets, less accumulated amortization of \$51,500	50,400
Other	41,100
	-----
Total assets	\$2,890,000
	=====

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	\$ 93,500
Accrued expenses and taxes	238,900
Dividends payable	89,000
	-----
Total current liabilities	421,400
	-----
Deferred compensation	20,500
	-----
Shareholders' equity:	
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,009,488 issued and outstanding	50,500
Additional paid-in capital	990,700
Accumulated other comprehensive loss, unrealized holding loss on investment securities	( 5,200)
Retained earnings	1,464,500
	-----
	2,500,500
Less common stock held in treasury, at cost, 19,802 shares	52,400
	-----
Total shareholders' equity	2,448,100
	-----
Total liabilities and shareholders' equity	\$2,890,000
	=====

See notes to unaudited condensed consolidated financial statements

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## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the Three Month Periods Ended	
	September 30, 2005	September 30, 2004
Net sales	\$ 890,000	\$ 851,800
Cost of goods sold	433,300	458,000
	-----	-----
Gross profit	456,700	393,800
	-----	-----
Operating Expenses:		
General and administrative	174,000	177,500
Selling	63,500	67,900
Research and development	91,800	78,400
	-----	-----
	329,300	323,800
	-----	-----
Income from operations	127,400	70,000
Interest and other income, net	7,500	6,600
	-----	-----
Income before income taxes	134,900	76,600
Income taxes, all current	38,000	18,000
	-----	-----
Net income	\$ 96,900	\$ 58,600
	=====	=====
Basic earnings per common share	\$ .10	\$ .06
Diluted earnings per common share	\$ .09	\$ .06
Cash dividends declared per common share	\$ .09	\$ .07

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, 2005	September 30, 2004
Operating activities:		
Net income	\$ 96,900	\$ 58,600
	-----	-----
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss on sale of investments	2,500	-
Depreciation and amortization	16,400	16,400

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Change in assets and liabilities:		
Accounts receivable	( 101,900)	( 200)
Inventories	( 52,300)	2,500
Prepaid expenses and other		
current assets	8,000	8,300
Other assets	( 1,100)	6,900
Accounts payable	11,100	( 8,300)
Accrued expenses and taxes	1,700	( 5,000)
Deferred compensation	1,100	( 1,900)
	-----	-----
Total adjustments	( 114,500)	18,700
	-----	-----
Net cash provided by (used in) operating activities	( 17,600)	77,300
	-----	-----
Investing activities:		
Purchase of investment securities, available for sale	( 154,300)	( 77,000)
Purchase of investment securities, held to maturity	-	( 15,300)
Redemptions of investment securities, available for sale	123,900	-
Redemptions of investment securities, held to maturity	15,000	25,500
Capital expenditures	( 3,400)	( 25,900)
Purchase of intangible assets	( 17,800)	( 4,400)
	-----	-----
Net cash used in investing activities	( 36,600)	( 97,100)
	-----	-----
Net decrease in cash and cash equivalents	( 54,200)	( 19,800)
Cash and cash equivalents, beginning of year	183,900	241,400
	-----	-----
Cash and cash equivalents, end of period	\$ 129,700	\$ 221,600
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 58,300	\$ 27,700

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 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

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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, 2005. The results for the three months ended September 30, 2005, are not necessarily an indication of the results that may be expected for the full fiscal year ending June 30, 2006.

### 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 manufacturing and marketing of equipment for research in university, hospital and industrial laboratories. The Company believes that it has only one reportable segment. Approximately 67% and 73% of net sales for the three month periods ended September 30, 2005 and 2004, respectively, were net sales of the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

The Company's export sales (principally Europe and Asia) were approximately \$349,500 and \$313,600 (39% and 37% of net sales) for the three month periods ended September 30, 2005 and 2004, respectively.

Three of the Company's customers accounted in the aggregate for 52% and 50% of net sales for the three month periods ended September 30, 2005 and 2004, 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. Components of inventory are as follows:

	September 30, 2005
	-----
Raw Materials	\$ 692,000
Work in process	36,700
Finished Goods	124,000
	-----
	\$ 852,700
	=====

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### 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, which was exercised at the end of the period.

Earnings per common share was computed as follows:

	For the Three Month Periods Ended	
	September 30, 2005	September 30, 2004
Net income	\$ 96,900	\$ 58,600
	=====	=====
Weighted average common shares outstanding	980,310	975,541
Effect of dilutive securities	80,515	69,138
	-----	-----
Weighted average dilutive common shares outstanding	1,060,825	1,044,679
	=====	=====
Basic earnings per common share	\$ .10	\$ .06
	=====	=====
Diluted earnings per common share	\$ .09	\$ .06
	=====	=====

All options and the warrant outstanding for the periods ended September 30, 2005 and 2004 were included in the foregoing computations on a weighted average basis.

### 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 September 30, 2005 and 2004.

### 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

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employee compensation:

For the Three Month Periods Ended  
September 30, 2005 September 30, 2004

Net income:		
As reported	\$ 96,900	\$ 30,000
Pro Forma	96,400	29,700

Earnings per common and common equivalent share:		
Basic - as reported	\$ .10	\$ .03
Basic - pro forma	\$ .10	\$ .03
Diluted - as reported	\$ .09	\$ .03
Diluted - pro forma	\$ .09	\$ .03

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 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).

### 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.

#### Liquidity and Capital Resources

Net cash used in operating activities was \$17,600 for the three month period of the current fiscal year as compared to \$77,300 provided in the comparative period of the prior fiscal year. The principal factors accounting for the difference were higher accounts receivable and inventory at September 30, 2005 compared to year end, partially offset by higher net income for the current

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three month period. Cash used in investing activities was \$36,600 for the current period as compared to \$97,100 used in the three months ended September 30, 2004 reflecting lower net purchases of investment securities during the current year period and greater capital expenditures during the prior year's three month period. As a result of the foregoing, cash and cash equivalents decreased by \$54,200 to \$129,700 as of September 30, 2005 from a balance of \$183,900 as of June 30, 2005.

On September 27, 2005, the Board of Directors of the Company declared a cash dividend of \$.09 per share of Common Stock payable on January 13, 2006 to holders of record as of the close of business on October 27, 2005.

The Company's working capital of \$2,251,000 as of September 30, 2005 approximated the working capital of \$2,248,800 at June 30, 2005. 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, all of which was available as of September 30, 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.

### Financial Overview

The quarter ended September 30, 2005 produced higher net income of \$96,900, an increase of \$38,300 over the prior year's comparable quarter, principally as a result of higher gross margins. Sales for the quarter

### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

ended September 30, 2005 were positively impacted by an approximate 41% increase in sales of new products over those for the quarter ended September 30, 2004.

### Results of Operations

The Three Months Ended September 30, 2005 Compared with the Three Months Ended September 30, 2004

The Company's net sales for the three months ended September 30, 2005 (the "2005 Quarter") increased \$38,200 (4.5%) to \$890,000 from \$851,800 for the three months ended September 30, 2004 (the "2004 Quarter"), primarily the result of a \$64,500 (40.6%) increase in sales of new products to \$223,400, from \$158,900 for the 2004 Quarter. The gross profit percentage for the 2005 Quarter was 51.3% compared to 46.2% for the 2004 Quarter, mainly as a result of lower factory-related costs, including the reduced rent under the new lease for the company's facilities and the absence of certain other costs that were incurred in prior year's period.

General and administrative expenses for the 2005 Quarter were \$174,000, a slight decrease of \$3,500 (2.0%) from \$177,500 for the 2004 Quarter.

Selling expenses of \$63,500 for the 2005 Quarter were \$4,400 (6.5%) less than \$67,900 for the 2004 Quarter primarily due to



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lower printed materials expenses.

Research and development expenses for the 2005 Quarter of \$91,800 were higher by \$13,400 (17.1%) than \$78,400 for the 2004 Quarter as a result of development work for a new project.

As a result of the foregoing, the Company reflected a \$58,300 (76.1%) increase in income before income taxes to \$134,900 for the 2005 Quarter, from \$76,600 for the 2004 Quarter.

As a result of the higher income, income taxes amounted to \$38,000 for the 2005 Quarter as compared to \$18,000 for the comparable period last year and net income for the 2005 Quarter was \$96,900, a 65.4% increase from \$58,600 for the 2004 Quarter.

### 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.

## 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 a report on Form 8-K on September 28, 2005 reporting under Item 8.01, Other Events.

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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.  
Registrant

Date November 10, 2005

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