

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC
Form 10QSB
February 14, 2006

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, 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 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 () No

State the number of shares outstanding of each of the issuer's
classes of common equity, as of February 3, 2006: 991,352 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

	December 31, 2005
Current Assets:	
Cash and cash equivalents	\$ 171,300
Investment securities	1,195,000
Trade accounts receivable, less allowance for doubtful accounts of \$11,600	492,400
Inventories	803,000
Prepaid expenses and other current assets	48,900
Deferred taxes	40,200

Total current assets	2,750,800
Property and equipment at cost, less accumulated depreciation of \$469,700	131,700
Intangible assets, less accumulated amortization of \$49,700	20,300
Other	41,600

Total assets	\$2,944,400
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	\$ 104,800
Accrued expenses and taxes	187,100
Dividends payable	89,000

Total current liabilities	380,900

Deferred compensation	21,000

Deferred taxes	3,200

Shareholders' equity:	
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,011,154 issued and outstanding	50,600
Additional paid-in capital	993,500
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(6,600)
Retained earnings	1,554,200

	2,591,700
Less common stock held in treasury, at cost, 19,802 shares	52,400

	2,539,300

	\$2,944,400
	=====

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 December 31,		For the Six Month Periods Ended December 31,	
	2005	2004	2005	2004
Net sales	\$928,100	\$845,100	\$1,818,100	\$1,696,900
Cost of goods sold	463,400	436,500	896,700	891,000
Gross profit	464,700	408,600	921,400	805,900
Operating Expenses:				
General & administrative	212,700	167,900	386,700	345,400
Selling	66,900	81,300	130,400	149,200
Research & development	78,400	88,500	170,200	170,400
	358,000	337,700	687,300	665,000
Income from operations	106,700	70,900	234,100	140,900
Interest & other income, net	10,900	7,900	18,400	14,500
Income before income taxes	117,600	78,800	252,500	155,400
Income tax expense (benefit):				
Current	18,900	(4,000)	56,900	14,000
Deferred	9,000	22,000	9,000	22,000
	27,900	18,000	65,900	36,000
Net income	\$ 89,700	\$ 60,800	\$ 186,600	\$ 119,400
Basic earnings per common share	\$.09	\$.06	\$.19	\$.12
Diluted earnings per common share	\$.08	\$.06	\$.18	\$.11
Cash dividends declared per common share	\$ -	\$ -	\$.09	\$.07

See notes to unaudited condensed consolidated financial statements

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

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	For the Six Month Periods Ended	
	December 31, 2005	December 31, 2004
	-----	-----
Operating activities:		
Net income	\$ 186,600	\$ 119,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of investments	2,500	-
Depreciation and amortization	47,000	32,500
Deferred income taxes	9,000	22,000
Income tax benefit of stock options exercised	900	500
Changes in assets and liabilities:		
Accounts receivable	(41,800)	(81,900)
Inventories	(2,600)	(27,700)
Prepaid expenses and other current assets	8,900	(6,200)
Other assets	(1,600)	13,100
Accounts payable	18,400	43,800
Accrued expenses and taxes	(46,100)	(18,600)
Deferred compensation	1,600	3,200
	-----	-----
Total adjustments	(3,800)	(19,300)
	-----	-----
Net cash provided by operating activities	182,800	100,100
	-----	-----
Investing activities:		
Purchase of investment securities, available-for-sale	(334,300)	(111,700)
Purchase investment securities, held to maturity	-	(83,100)
Redemptions of investment securities, available-for-sale	123,900	-
Redemptions of investment securities, held to maturity	40,000	55,500
Capital expenditures	(22,400)	(40,900)
Purchase of intangible assets	(4,600)	(7,600)
	-----	-----
Net cash used in investing activities	(197,400)	(187,800)
	-----	-----
Financing activities,		
exercise of stock options	2,000	2,000
	-----	-----
Net decrease in cash and cash equivalents	(12,600)	(85,700)
Cash and cash equivalents, beginning of year	183,900	241,400
	-----	-----
Cash and cash equivalents, end of period	\$ 171,300	\$ 155,700
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 99,000	\$ 51,600

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 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 and six months ended December 31, 2005, are not necessarily an indication of the results of 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 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 manufacturing and marketing of equipment for research in university, hospital and industrial laboratories. The Company believes that it has only one reportable segment. Approximately 75% and 72% of net sales for the three month periods ended December 31, 2005 and 2004, respectively, were derived from the Company's main product, the Vortex-Genie(R) 2 mixer, excluding accessories, and approximately 71% and 73% for the six month periods ended December 31, 2005 and 2004, respectively.

The Company's export sales (principally Europe and Asia) were approximately \$434,000 and \$435,000 for the three month periods ended December 31, 2005 and 2004, respectively, and \$783,000 and \$748,000 for the six month periods ended December 31, 2005 and 2004, respectively.

Three of the Company's customers accounted in the aggregate for 46% and 49% of net sales for the three month periods ended December 31, 2005 and 2004, respectively, and 49% of total net sales for each of the six month periods ended December 31, 2005 and 2004.

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, 2005
Raw Materials	\$ 634,200
Work in process	44,800
Finished Goods	124,000

	\$ 803,000
	=====

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 include the dilutive effect of stock options and a warrant, which was exercised at the end of September, 2005.

Earnings per common share was computed as follows:

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2005	2004	2005	2004
Net income	\$ 89,700	\$ 60,800	\$186,600	\$119,400
	=====	=====	=====	=====
Weighted average common shares outstanding	991,098	976,736	985,704	976,139
Effect of dilutive securities	76,072	76,536	78,294	72,837
	-----	-----	-----	-----
Weighted average dilutive common shares outstanding	1,067,170	1,053,272	1,063,998	1,048,976
	=====	=====	=====	=====
Basic earnings per common share	\$.09	\$.06	\$.19	\$.12
	=====	=====	=====	=====
Diluted earnings per common share	\$.08	\$.06	\$.18	\$.11
	=====	=====	=====	=====

All options outstanding as of December 31, 2005 and 2004 were included in the foregoing computations. The warrant was included in the calculation for the periods prior to its exercise in September 2005.

5. Comprehensive Income:

There was no significant difference between net income and comprehensive income for the three and six month periods ended December 31, 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 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 December 31,		For the Six Month Periods Ended December 31,	
	2005	2004	2005	2004
	-----	-----	-----	-----
Net income:				
As reported	\$ 89,700	\$ 60,800	\$186,600	\$119,400
Pro Forma	89,300	60,300	185,700	118,400
Earnings per common and common equivalent share:				
Basic - as reported	\$.09	\$.06	\$.19	\$.12
Basic - pro forma	\$.09	\$.06	\$.19	\$.12
Diluted - as reported	\$.08	\$.06	\$.18	\$.11
Diluted - pro forma	\$.08	\$.06	\$.17	\$.11

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).

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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, 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

Cash and cash equivalents decreased by \$12,600 to \$171,300 as of December 31, 2005 from \$183,900 as of June 30, 2005.

Net cash provided by operating activities was \$182,800 for the six month period of the current fiscal year as compared to \$100,100 in the comparative period for 2004. The principal factors accounting for the difference was higher income and less of an increase in accounts receivable in 2005. Cash used in investing activities was \$197,400 for the current period as compared to \$187,800 for the six months ended December 31, 2004 principally due to increased purchases of investment securities during the current year.

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

The Company's working capital as of December 31, 2005 increased \$121,100 to \$2,369,900 from \$2,248,800 at June 30, 2005. The increase was mainly due to income from operations, partially offset by the accrual for the declared dividend. The Company has available a secured bank line of credit of \$200,000 with North Fork Bank with interest at prime, all of which was available as of December 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 12 months ended December 31, 2005 from funds generated by operations and its available financial resources which include its cash and investment securities.

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Results of Operations

Financial Overview

Due mainly to higher sales and gross profit margins, the Company achieved net income of \$89,700 and \$186,600 for the three and six month periods ended December 31, 2005 - increases of \$28,900 (48%) and \$67,200 (56%) over the comparable periods last year.

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

The Company's net sales for the three months ended December 31, 2005 increased by \$83,000 (9.8%) to \$928,100 compared with \$845,100 for the three months ended December 31, 2004 primarily as a result of higher domestic sales of the Vortex-Genie(R) 2 mixer and a reduction in the prior year period's sales due to production interruptions caused by a supplier.

The gross profit percentage for the three months ended December 31, 2005 increased to 50.1% compared to 48.3% for the three months ended December 31, 2004, mainly as a result of lower production costs and increased selling prices of certain products.

General and administrative expenses for the three months ended December 31, 2005 were higher by \$44,800 (26.7%) for the current year's three month period - \$212,700 compared to \$167,900 for the three months ended December 31, 2004 - due primarily to higher costs incurred in pursuit of business opportunities.

Selling expenses for the three months ended December 31, 2005 decreased by \$14,400 (17.7%) to \$66,900 as compared with \$81,300 for the three months ended December 31, 2004 due to lower costs related to trade shows.

Research and development expenses for the three months ended December 31, 2005 decreased by \$10,100 (11.4%) to \$78,400 as compared to \$88,500 for the three months ended December 31, 2004 as a result of the substantial expenditures incurred in the prior period on the Multi-MicroPlate Genie(R) mixer.

As a result of the foregoing, the Company's income before income taxes increased by \$38,800 (49.2%) to \$117,600 for the three months ended December 31, 2005 compared to \$78,800 for the three months ended December 31, 2004.

Income taxes were \$27,900 for the three months ended December 31, 2005 compared to \$18,000 for the comparable period last year.

The Company's net income increased by \$28,900 (47.5%) to \$89,700 for the three months ended December 31, 2005 compared to \$60,800 for the three months ended December 31, 2004.

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The Six Months Ended December 31, 2005 Compared with the Six Months Ended December 31, 2004.

The increase of \$121,200 (7.1%) in the Company's net sales for the six months ended December 31, 2005 to \$1,818,100 as compared with \$1,696,900 for the six months ended December 31, 2004 was principally due to increased sales of new products in the first quarter and higher domestic sales of the Vortex-Genie 2 mixer in the second quarter of this year and the reduction in the prior year's second quarter sales due to production interruptions caused by a supplier. The gross profit percentage for the six months ended December 31, 2005 improved to 50.7% compared to 47.5% for the prior year's period, mainly as a result of lower production costs and increased selling prices of certain products.

General and administrative expenses for the six months ended December 31, 2005 increased by \$41,300 (12.0%) to \$386,700 as compared with \$345,400 for the prior year's six-month period, mainly as a result of higher costs incurred in pursuit of business opportunities.

Selling expenses decreased by \$18,800 (12.6%) from \$149,200 to \$130,400 between the comparative six month periods, due mostly to lower costs related to trade shows.

As a result of the foregoing, the Company's income before income taxes increased by \$97,100 (62.5%) to \$252,500 for the six months ended December 31, 2005 compared to \$155,400 for the six months ended December 31, 2004 and the income tax provision for the six months ended December 31, 2005 was \$65,900 compared to \$36,000 for the prior year's period.

Net income for the current year's six month period increased by \$67,200 (56.3%) to \$186,600 compared to \$119,400 for the same period last year.

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.

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PART II - OTHER INFORMATION

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

At the Company's 2005 Annual Meeting of Stockholders held on December 2, 2005, stockholders (i) re-elected as Class C Directors to serve until the Annual Meeting of Stockholders with respect to the fiscal year ending June 30, 2008 and the due election and qualification of their successors: Mr. Joseph G. Cremonese by 594,365 shares "For" and 140,877 shares "Withheld" and Mr. Roger B. Knowles by 593,821 shares "For", and 141,421 shares "Withheld"; and (ii) ratified the appointment of Nussbaum Yates & Wolpow P.C. as the independent auditors with respect to the financial statements of the Company for the year ending June 30, 2006 by a vote of 733,095 shares "For", 0 shares "Against", and 147 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. |

- (b) Reports on Form 8-K:
None.

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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.

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Scientific Industries, Inc.
Registrant

/s/Helena R. Santos

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

Date: February 14, 2006