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SCIENTIFIC INDUSTRIES INC  
Form 10QSB  
May 12, 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 MARCH 31, 2006

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 5, 2006: 1,000,352 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

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

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## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

### ASSETS

	March 31, 2006
	-----
Current Assets:	
Cash and cash equivalents	\$ 148,200
Investment securities	1,165,800
Trade accounts receivable, less allowance for doubtful accounts of \$11,600	459,500
Inventories	898,400
Prepaid expenses and other current assets	98,200
Deferred taxes	34,000
	-----
Total current assets	2,804,100
	-----
Property and equipment at cost, less accumulated depreciation of \$482,600	121,200
	-----
Other assets and deferred charges:	
Intangible assets, less accumulated amortization of \$51,400	20,500
Other	20,600
	-----
	41,100
	-----
	\$2,966,400
	=====

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	\$ 90,700
Accrued expenses and taxes	212,100
	-----
Total current liabilities	302,800
	-----
Deferred taxes	9,000
	-----
Shareholders' equity:	
Common stock \$.05 par value; authorized 7,000,000 shares; 1,020,154 shares issued and outstanding	51,000
Additional paid-in capital	1,008,100
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(8,500)
Retained earnings	1,656,400
	-----
	2,707,000
Less common stock held in treasury, at cost; 19,802 shares	52,400
	-----
	2,654,600
	-----
	\$2,966,400
	=====

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 March 31,		For the Nine Month Periods Ended March 31,	
	2006	2005	2006	2005
Net sales	\$ 919,400	\$996,300	\$2,737,500	\$2,693,200
Cost of goods sold	472,100	478,700	1,368,800	1,369,700
Gross profit	447,300	517,600	1,368,700	1,323,500
Operating Expenses:				
General and administrative	176,700	176,200	563,400	521,600
Selling	54,600	75,500	185,000	224,700
Research and development	72,900	109,000	243,100	279,400
	304,200	360,700	991,500	1,025,700
Income from operations	143,100	156,900	377,200	297,800
Interest and other income, net	12,600	1,600	31,000	16,100
Income before income taxes	155,700	158,500	408,200	313,900
Income tax expense:				
Current	41,500	42,000	98,400	56,000
Deferred	12,000	21,800	21,000	43,800
	53,500	63,800	119,400	99,800
Net income	\$102,200	\$ 94,700	\$ 288,800	\$ 214,100
Basic earnings per common share	\$ .10	\$ .10	\$ .29	\$ .22
Diluted earnings per common share	\$ .10	\$ .09	\$ .27	\$ .20
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

	For the Nine Month Periods Ended	
	March 31, 2006	March 31, 2005
Operating activities:		
Net income	\$ 288,800	\$ 214,100
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of investments	2,500	1,300
Depreciation and amortization	61,800	49,200
Deferred income taxes	21,000	43,800
Income tax benefit of stock options exercised	4,400	1,000
Change in assets and liabilities:		
Accounts receivable	( 8,900)	( 146,000)
Inventories	( 98,000)	( 62,600)
Prepaid expenses and other current assets	( 40,400)	13,300
Other assets	19,400	33,200
Accounts payable	8,300	( 9,100)
Accrued expenses and taxes	( 25,100)	52,800
Deferred compensation	( 19,400)	( 17,100)
	-----	-----
Total adjustments	( 74,400)	( 40,200)
	-----	-----
Net cash provided by operating activities	214,400	173,900
Investing activities:		
Purchase of investment securities, available for sale	( 339,200)	( 163,800)
Purchase of investment securities, held to maturity	-	( 113,500)
Redemptions of investment securities, available-for-sale	123,900	53,200
Redemptions of investment securities, held to maturity	72,300	55,500
Capital expenditures	( 24,900)	( 54,300)
Purchase of intangible assets	( 4,600)	( 9,100)
	-----	-----
Net cash used in investing activities	( 172,500)	( 232,000)
Financing activities:		
Exercise of stock options	11,500	5,900
Cash dividend declared and paid	( 89,100)	( 68,300)
	-----	-----
Net cash used in financing activities	( 77,600)	( 62,400)
	-----	-----
Net decrease in cash and cash equivalents	( 35,700)	( 120,500)
Cash and cash equivalents, beginning of year	183,900	241,400
	-----	-----

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Cash and cash equivalents, end of period	\$ 148,200	\$ 120,900
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 112,900	\$ 51,600

See notes to unaudited condensed consolidated financial statements

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### 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, 2005. The results for the three and nine months ended March 31, 2006, 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 73% and 76% of net sales for the three and nine month periods ended March 31, 2006, respectively, were derived from the Company's main product, the Vortex-Genie 2, compared to 78% and 74% in the comparable prior year periods.

The Company's export sales (principally Europe and Asia) were approximately \$424,600 and \$448,400 for the three month periods ended March 31, 2006 and 2005, respectively, and \$1,207,700 and \$1,196,800 for the nine month periods ended March 31, 2006 and 2005, respectively.

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Three of the Company's customers accounted in the aggregate for 49% of net sales for both of the three month periods ended March 31, 2006 and 2005, and 49% and 51% of net sales for the nine month periods ended March 31, 2006 and 2005, respectively (see Financial Overview).

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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, 2006:

	March 31, 2006
Raw Materials	\$ 781,300
Work in process	29,400
Finished Goods	87,700
	-----
	\$ 898,400
	=====

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, which was exercised at the end of September 2005.

Earnings per common share were computed as follows:

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2006	2005	2006	2005
Net income	\$ 102,200	\$ 94,700	\$ 288,800	\$ 214,100
	=====	=====	=====	=====
Weighted average common shares outstanding	995,652	979,640	988,972	977,278
Effect of dilutive securities	79,175	74,972	78,588	73,547
	-----	-----	-----	-----
Weighted average dilutive common shares outstanding	1,074,827	1,054,612	1,067,560	1,050,825
	=====	=====	=====	=====

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Basic earnings per common share	\$ .10	\$ .10	\$ .29	\$ .22
	=====	=====	=====	=====
Diluted earnings per common share	\$ .10	\$ .09	\$ .27	\$ .20
	=====	=====	=====	=====

All options outstanding as of March 31, 2006 and 2005 were included in the foregoing computations. A warrant for the exercise of 17,391 shares 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 nine month periods ended March 31, 2006 and 2005.

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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,	
	2006	2005	2006	2005
Net income:				
As reported	\$102,200	\$94,700	\$288,800	\$214,100
Pro Forma	102,200	94,200	287,900	212,600
Earnings per common and common equivalent share:				
Basic - as reported	\$ .10	\$ .10	\$ .29	\$ .22
Basic - pro forma	\$ .10	\$ .10	\$ .29	\$ .22
Diluted - as reported	\$ .10	\$ .09	\$ .27	\$ .20
Diluted - pro forma	\$ .10	\$ .09	\$ .27	\$ .20

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 for the Company's fiscal year beginning July 1, 2006. The Company is currently assessing the impact which SFAS 123(R) will have.

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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, 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 increased to \$214,400 for the nine months ended March 31, 2006 as compared to \$173,900 for the same nine month period of the prior fiscal year; the increase of \$40,500 was primarily due to higher income. Cash used in investing activities was \$172,500 for the current nine month period as compared to \$232,000 for the nine months ended March 31, 2005, a decrease of \$59,500, mainly as a result of higher redemptions of investment securities during the current nine month period. Cash used in financing activities for the nine months ended March 31, 2006 was \$77,600, compared to \$62,400 for the prior year's nine month period, an increase of \$15,200 due to the higher cash dividend paid in the 2006 period. As a result of the foregoing, cash and cash equivalents decreased by \$35,700 to \$148,200 as of March 31, 2006 from a balance of \$183,900 as of June 30, 2005.



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The Company's working capital as of March 31, 2006 increased \$252,500 to \$2,501,300 from \$2,248,800 at June 30, 2005, mainly due to income from operations, partially offset by the cash dividend. 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 March 31, 2006. The Company has never borrowed under this line of credit. Management believes that the Company will be able to meet its cash flow needs for its operations during the next 12 months from its available financial resources which include its cash and investment securities.

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### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

#### Results of Operations

##### Financial Overview

Due mainly to higher sales, lower operating expenses, and higher interest income, the Company achieved income before income taxes of \$408,200 for the nine months ended March 31, 2006 compared to \$313,900 for the nine months ended March 31, 2005. Income before income taxes for the three month comparison period ended March 31, 2006, however, was approximately the same at \$155,700 compared to \$158,500.

The Company was recently informed by its principal customer and distributor for more than 30 years of a change in its selling and marketing methods. While the distributor will continue to offer the Vortex-Genie(R) 2 Mixer, it will discontinue the product's current catalogue number which has been associated with the product for many years and assign it a different catalogue number.

It will also exclude the product from future printed catalogues; however, the product will still appear on its website. The Company believes that the distributor intends to market and promote a competitive private label product. As a result of the change, the distributor will no longer purchase products from the Company for inventory; all sales to the distributor's customers will be filled by the Company through direct shipment. Sales to the distributor of the Company's products, predominantly the Vortex-Genie(R) 2 Mixer and related accessories, accounted for approximately 23% and 24% of the Company's revenues for the three and nine month periods ended March 31, 2006 respectively, and 25% and 23% for the comparable three and nine month periods of the prior year. The Company is undertaking measures to mitigate the expected impact on sales and income, including an increase in its direct selling efforts and working with other distributors to increase their distribution of the Company's products.

The Three Months Ended March 31, 2006 Compared with the Three Months Ended March 31, 2005.

Net sales for the three months ended March 31, 2006 decreased by \$76,900 (7.7%) to \$919,400 as compared with \$996,300 for the three months ended March 31, 2005, primarily due to the unusually high level of orders filled in the quarter ended March 31, 2005 due to

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a temporary supplier problem in the previous quarter. Due primarily to increasing raw material costs, the gross profit margin was reduced to 48.7% (\$447,300) for the three months ended March 31, 2006, from 52.0% (\$517,600) for the three months ended March 31, 2005.

The amounts of general and administrative expenses for the three month comparative periods were substantially the same, \$176,700 for the March 31, 2006 quarter and \$176,200 for the March 31, 2005 quarter.

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### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

Selling expenses for the three months ended March 31, 2006 decreased by \$20,900 (27.7%) to \$54,600 as compared to \$75,500 for the three months ended March 31, 2005, mainly due to lower salary expense and costs related to trade shows. The reduction in salary expense resulted from the resignation in February 2006 of the Marketing Director, and subsequent hiring of a replacement at a lower salary.

Research and development expenses for the three months ended March 31, 2006 were \$36,100 (33.1%) lower at \$72,900 compared to \$109,000 for the prior year's three month period, during which substantial expenses were incurred in the development of the Multi-MicroPlate Genie Mixer.

Interest and other income increased to \$12,600 for the three months ended March 31, 2006 from \$1,600 for the prior year's three month period due to higher interest rates and higher balances of investment securities.

Income tax expense for the three months ended March 31, 2006 was \$53,500 as compared with \$63,800 for the prior year's quarter.

As a result of the foregoing, net income was \$7,500 greater, \$102,200 for the three months ended March 31, 2006 compared to \$94,700 for the year earlier quarter.

The Nine Months Ended March 31, 2006 Compared with the Nine Months Ended March 31, 2005.

Net sales increased \$44,300 (1.6%) to \$2,737,500 for the nine months ended March 31, 2006 compared to \$2,693,200 for the nine months ended March 31, 2005, primarily due to a further increase in sales of new products.

The gross profit margin of 50.0% for the nine months ended March 31, 2006, was slightly higher than the gross profit margin of 49.1% for the nine months ended March 31, 2005 due mainly to lower overhead costs.

General and administrative expenses for the nine months ended March 31, 2006 were \$563,400, an increase of \$41,800 (8.0%), as

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compared with \$521,600 for the nine months ended March 31, 2005 mainly as a result of an increase in costs for investigating business opportunities.

Selling expenses for the nine months ended March 31, 2006 were \$185,000 or \$39,700 (17.7%) less than \$224,700 for the nine months ended March 31, 2005, due mostly to lower trade show costs and salary expense; the latter due to the change in marketing personnel during the quarter.

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Research and development expenses were \$243,100 for the nine months ended March 31, 2006, \$36,300 (13.0%) less than \$279,400 for the comparable prior year period during which substantial development costs for the new Multi-MicroPlate Genie(TM) were incurred.

Interest and other income increased \$14,900 to \$31,000 for the nine months ended March 31, 2006 compared to \$16,100 for the nine months ended March 31, 2005 due to higher interest rates and balances of investment securities.

Income before income taxes increased \$94,300 (30.0%) to \$408,200 for the nine months ended March 31, 2006 compared to \$313,900 for the nine months ended March 31, 2005, and as a result, income tax expense was \$119,400 for the nine months ended March 31, 2006, compared to \$99,800 for the prior year comparable nine month period.

As a result of the foregoing, net income increased by \$74,700 (34.9%) to \$288,800 for the nine months ended March 31, 2006 from \$214,100 for the nine months ended March 31, 2005.

### 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 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, 2006, Registrant filed a report on Form 8-K on February 14, 2006 reporting under Item 5.02.

On May 5, 2006, Registrant filed a report on Form 8-K, reporting under Item 8.01.

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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.  
\_\_\_\_\_  
Registrant

/s/Helena R. Santos  
\_\_\_\_\_  
Helena R. Santos

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President, Chief Executive Officer,  
Treasurer, and Chief Financial Officer

Date: May 12, 2006