SCIENTIFIC INDUSTRIES INC
Form 10-Q
November 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended September 30, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from___________to_____________

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-2217279
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
70 Orville Drive, Bohemia, New York	11716
(Address of principal executive offices)	(Zip Code)

(631)567-4700
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 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 X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	______	Accelerated Filer	_______
Non-accelerated filer	_______	Smaller reporting company	X

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes X No

The number of shares outstanding of the issuer's common stock par value, $0.05 per share, as of October 29, 2010 was 1,196,577 shares.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2010	June 30, 2010
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 839,900	$ 632,700
Investment securities	684,100	665,600
Trade accounts receivable, net	764,700	1,494,500
Inventories	1,567,300	1,272,600
Prepaid expenses and other current assets	109,200	87,200
Deferred taxes	69,500	73,800
Total current assets	4,034,700	4,226,400
Property and equipment, net	180,600	193,400
Intangible assets, net	188,100	214,200
Goodwill	416,900	405,200
Other assets	25,700	25,700
Deferred taxes	105,300	100,100
Total assets	$4,951,300	$5,165,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2010	June 30, 2010
Current Liabilities:		
Accounts payable	$ 70,500	$ 227,700
Customer advances	128,500	-
Accrued expenses and taxes	285,300	486,000
Dividends payable	107,700	-
Total current liabilities	592,000	713,700
Shareholders' Equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; 1,216,379 issued and outstanding at September 30, 2010 and June 30, 2010	60,800	60,800
Additional paid-in capital	1,540,300	1,537,200
Accumulated other comprehensive loss	(19,400)	(29,800)
Retained earnings	2,830,000	2,935,500
	4,411,700	4,503,700
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	4,359,300	4,451,300
Total liabilities and shareholders' equity	$ 4,951,300	$5,165,000

See notes to unaudited condensed consolidated financial statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Month Periods Ended September 30, 2010	2009
Net sales	$1,255,500	$1,244,000
Cost of goods sold	746,800	708,200
Gross profit	508,700	535,800
Operating Expenses:		
General & administrative	286,800	229,600
Selling	140,400	142,200
Research & development	87,500	108,500
Total operating expenses	514,700	480,300
Income (loss) from operations	(6,000)	55,500
Interest & other income, net	9,200	4,100
Income before income taxes	3,200	59,600
Income tax expense (benefit):		
Current	6,600	24,500
Deferred	(5,600)	(8,400)
	1,000	16,100
Net income	$ 2,200	$ 43,500
Basic earnings per common share	$ -	$ .04
Diluted earnings per common share	$ -	$ .04
Cash dividends declared per common share	$ .09	$ .06

See notes to unaudited condensed consolidated financial statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Month Periods Ended Sept. 30, 2010	Sept. 30, 2009
Operating activities:		
Net income	$ 2,200	$ 43,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,400	51,700
Deferred income taxes	(5,600)	(8,400)
Income tax benefit of stock options exercised	-	400
Stock-based compensation	3,100	400
Changes in operating assets and liabilities:		
Accounts receivable	729,800	185,600
Inventories	(294,700)	(376,100)
Prepaid expenses and other current assets	(22,000)	41,300
Accounts payable	(157,200)	(5,900)
Customer advances	128,500	182,100
Accrued expenses and taxes	(72,500)	(84,900)
Total adjustments	356,800	(13,800)
Net cash provided by operating activities	359,000	29,700
Investing activities:		
Additional consideration for acquisition of Altamira Instruments, Inc.	(139,900)	(107,000)
Purchase of investment securities, available-for-sale	(3,400)	(3,800)
Capital expenditures	(5,200)	(6,600)
Purchases of intangible assets	(3,300)	(1,500)
Net cash used in investing activities	(151,800)	(118,900)
Financing activities, proceeds from exercise of stock options	-	5,300
Net increase (decrease) in cash and cash equivalents	207,200	(83,900)
Cash and cash equivalents, beginning of period	632,700	738,400
Cash and cash equivalents, end of period	$ 839,900	$ 654,500

Supplemental disclosures:

Cash paid during the period for:		
Income Taxes	$ 94,000	$ 116,800

See notes to unaudited condensed consolidated financial statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
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-Q. 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 that they 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-K, for the fiscal year ended June 30, 2010. The results for the three months ended September 30, 2010, are not necessarily an indication of the results for the full fiscal year ending June 30, 2011.

1. Summary of significant accounting policies:

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of Scientific Industries, Inc., Altamira Instruments, Inc. ("Altamira"), a Delaware corporation and wholly-owned subsidiary, and Scientific Packaging Industries, Inc., an inactive wholly-owned subsidiary (all collectively referred to as the "Company"). All material intercompany balances and transactions have been eliminated.

2. Acquisition of Altamira Instruments, Inc.:

On November 30, 2006, the Company acquired all of the outstanding capital stock of Altamira. The acquisition was pursuant to a Stock Purchase Agreement (the "Agreement") whereby the Company paid or issued to the sellers $400,000 in cash, and issued to them 125,000 shares of the Company's Common Stock and agreed to make additional cash payments equal to 5%, subject to adjustment, of the net sales of Altamira for each of five periods December 1, 2006 to June 30, 2007, each of the fiscal years ending June 30, 2008, 2009, and 2010, and July 1, 2010 to November 30, 2010.

Altamira's principal customers are universities, government laboratories, and chemical and petrochemical companies. The instruments are customizable to the customer's specifications, and are sold on a direct basis.

In conjunction with the acquisition of Altamira, management of the Company valued the tangible and intangible assets acquired, including goodwill, customer relationships, non-compete agreements, and certain technology, trade names and trademarks. The carrying amounts of goodwill and other intangible assets are presented in Note 8, "Goodwill and Other Intangible Assets" which represent the valuations determined in conjunction with the acquisition. In addition, other fair market value adjustments were made in conjunction with the acquisition, primarily adjustments to property and equipment, and inventory.

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As of September 30, 2010, the adjusted aggregate purchase price, was allocated to assets acquired and liabilities assumed as follows:

Current assets	$ 734,000
Property and equipment	140,300
Non-current assets	25,100
Goodwill	416,900
Other intangible assets	639,000*
Current liabilities	(561,900)
Net purchase price	$1,393,400

*Of the $639,000 of other intangible assets, $237,000 was allocated to customer relationships with an estimated useful life of 10 years, $300,000 was allocated to technology including trade names and trademarks with a useful life of 5 years, and $102,000 was allocated to a non-compete agreement with a useful life of 5 years. The amount allocated to the customer relationships is being amortized on an accelerated (declining balance) method and the other intangibles are being amortized on a straight-line basis.

3. Segment Information and Concentrations:

The Company views its operations as two segments: the manufacture and marketing of standard benchtop laboratory equipment for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors ("Benchtop Laboratory Equipment Operations"), and the manufacture and marketing of custom-made catalyst research instruments for universities, government laboratories, and chemical and petrochemical companies sold on a direct basis ("Catalyst Research Instruments Operations").

Segment information is reported as follows:

Benchtop Laboratory	Catalyst Research	Corporate and

	Equipment	Instruments	Other	Consolidated
Three months ended September 30, 2010:				
Net Sales	$1,022,100	$ 233,400	$ -	$1,255,500
Foreign Sales	520,200	26,000	-	546,200
Segment Profit (Loss)	125,000	(131,000)	-	(6,000)
Segment Assets	2,182,500	1,467,300	1,301,500	4,951,300
Long-Lived Asset Expenditures	3,400	1,800	-	5,200
Depreciation and Amortization	13,900	33,500	-	47,400

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Segment information is reported as follows:

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Three months ended September 30, 2009:				
Net Sales	$ 1,011,600	$ 232,400	$ -	$1,244,000
Foreign Sales	510,900	145,500	-	656,400
Segment Profit (Loss)	121,500	(61,900)	-	59,600
Segment Assets	2,161,100	1,693,000	1,058,500	4,912,500
Long-Lived Asset Expenditures	6,600	-	-	6,600
Depreciation and Amortization	15,900	35,800	-	51,700

Approximately 66% and 65% of net sales of benchtop laboratory equipment for the three month periods ended September 30, 2010 and 2009, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Two customers accounted in the aggregate for approximately 27% of the net sales of the Benchtop Laboratory Equipment Operations and 22% of total sales for the three months ended September 30, 2010, and 34% of net sales of the segment and 28% of total sales for the three months ended September 30, 2009. Sales of catalyst research instruments generally comprise a few very large orders averaging $100,000 per order to a limited number of customers, who differ from order to order. Sales to two customers represented approximately 75% of the Catalyst Research Instrument Operations' net sales and 14% of total sales for the three months ended September 30, 2010. Sales to two different customers represented 91% of the segment's net sales and 17% of total sales for the year earlier comparable period.

The Company's foreign sales are principally to customers in Europe and Asia.

4. Fair Value of Financial Instruments:

The FASB defines the fair value of financial instruments as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements do not include transaction costs.

The accounting guidance also expands the disclosure requirements around fair value and establishes a fair value hierarchy of valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are described below:

Level 1 Inputs that are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuation that require inputs that are both significant to the fair value measurement and unobservable.

The following tables set forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis at September 30, 2010 and June 30, 2010 according to the valuation techniques the Company used to determine their fair values:

		Fair Value Measurements Using Inputs Considered as		
	Fair Value at September 30, 2010	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 839,900	$ 839,900	$ -	$ -
Available for sale securities	684,100	684,100	-	-
Total	$1,524,000	$1,524,000	$ -	$ -

	Fair Value at September 30, 2010	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 632,700	$ 632,700	$ -	$ -
Available for sale securities	665,600	665,600	-	-
Total	$1,298,500	$1,298,300	$ -	$ -

Investments in marketable securities classified as available-for-sale by security type at September 30, 2010 and June 30, 2010 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At September 30, 2010:			
Available for sale:			
Equity securities	$ 7,800	$ 11,600	$ 3,800
Mutual funds	695,700	672,500	(23,200)
	$ 703,500	$ 684,100	$ (19,400)

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2010:			
Available for sale:			
Equity securities	$ 7,800	$ 9,600	$ 1,800
Mutual funds	687,600	656,000	(31,600)
	$ 695,400	$ 665,600	$ (29,800)

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5. Inventories:

Inventories for financial statement purposes are based on perpetual inventory records at September 30, 2010 and June 30, 2010. Components of inventory are as follows:

	September 30, 2010	June 30, 2010
Raw Materials	$ 987,000	$ 896,400
Work in process	379,300	201,400
Finished Goods	201,000	174,800
	$1,567,300	$ 1,272,600

6. 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, if any.

Earnings per common share was computed as follows:

	For the Three Month Periods Ended September 30,	
	2010	2009
Net income	$ 2,200	$ 43,500
Weighted average common shares outstanding	1,196,577	1,194,534
Dilutive securities	15,413	9,895
Weighted average dilutive common shares outstanding	1,211,990	1,204,429
Basic earnings per common share	$ -	$ .04
Diluted earnings per common share	$ -	$ .04

Approximately 22,500 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted earnings per common share for the three months ended September 30, 2009 because the effect would be anti-dilutive.

7. Comprehensive Income:

The FASB establishes standards for disclosure of comprehensive income or loss, which includes net income or loss and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in the net unrealized gains or losses on securities.) The Company's only source of comprehensive income or loss other than net income is the net unrealized gain or loss on securities. The components of comprehensive income were as follows:

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	For the Three Month Periods Ended September 30,	
	2010	2009
Net income	$ 2,200	$ 43,500
Other comprehensive income		
Unrealized holding gain arising during period	10,400	36,100
Comprehensive income	$ 12,600	$ 79,600

8. Goodwill and Other Intangible Assets:

In conjunction with the acquisition of Altamira, management of the Company valued the tangible and intangible assets acquired, including customer relationships, non-compete agreements and technology which encompasses trade names, trademarks and licenses. The valuation resulted in an initial negative goodwill of approximately $91,500 on the date of acquisition which was subsequently adjusted to positive goodwill of $416,900 and $405,200 at September 30, 2010 and June 30, 2010, respectively, all of which is deductible for tax purposes. The related agreement provides for contingent payments to the former shareholders based on net sales of the Catalyst Research Instrument Operations subject to certain limits, which are expected to be earned and paid. Additional consideration amounted to $11,700 and $11,600 for the three month periods ended September 30, 2010 and 2009, respectively.

The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At September 30, 2010:				
Technology	5 yrs.	$300,000	$230,000	$ 70,000
Customer relationships	10 yrs.	237,000	163,100	73,900
Non-compete agreement	5 yrs.	102,000	78,200	23,800
Other intangible assets	5 yrs.	132,800	112,400	20,400
		$771,800	$583,700	$188,100

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2010:				
Technology	5 yrs.	$300,000	$215,000	$ 85,000
Customer relationships	10 yrs.	237,000	157,000	80,000
Non-compete agreement	5 yrs.	102,000	73,100	28,900
Other intangible assets	5 yrs.	129,500	109,200	20,300
		$768,500	$554,300	$214,200

Total amortization expense was $29,400 and $30,700 for the three months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, estimated future amortization expense related to intangible assets is $84,400 for the remainder of the fiscal year ending June 30, 2011, $51,800 for fiscal 2012, $13,500 for fiscal 2013, $9,800 for fiscal 2014, $6,500 for fiscal 2015, and $22,100 thereafter.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

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, the ability to finance and produce to customers' specifications catalyst research instruments, 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 increased by $207,200 to $839,900 as of September 30, 2010 from $632,700 as of June 30, 2010.

Net cash provided by operating activities was $359,000 for the three months ended September 30, 2010 as compared to $29,700 for the comparable three month period in 2009, due mainly to the collections of accounts receivable balances partially offset by an increase in inventory. Cash used in investing activities was $151,800 for the three month period ended September 30, 2010 compared to $118,900 for the three month period ended September 30, 2009 due primarily to a higher amount by $32,900 of additional consideration paid for the acquisition of Altamira Instruments, Inc.

On September 21, 2010, the Board of Directors of the Company declared a cash dividend of $.09 per share of Common Stock payable on December 15, 2010 to holders of record as of the close of business on October 18, 2010.

The Company's working capital decreased $70,000 to $3,442,700 at September 30, 2010 from $3,512,700 at June 30, 2010 mainly as a result of the recording of the dividend to be paid.

Pursuant to a promissory note with Capital One Bank, N.A., which was restated in January 2010 and extended from November 1, 2009 to January 3, 2011, at the request of the Company, the Bank at its sole discretion may extend the Company advances not to exceed an aggregate of $500,000. The advances are to be secured by the Company's assets and bear interest at the Bank's prime rate. Management believes that the Company will be able to meet, absent a material capital expenditure, its cash flow needs during the 12 months ending September 30, 2011 from its available financial resources including its cash and investment securities, and operations.

Results of Operations

Financial Overview

The reduction in the Company's income before income taxes to $3,200 for the three months ended September 30, 2010 from $59,600 for the three months ended September 30, 2009, was principally due to the $69,100 increase to $131,000 in the segment loss incurred by the Catalyst Research Instruments Operations, which was primarily due to a reduction in the gross margins for the segment. For the comparative three month periods, the segment profit of the Benchtop Laboratory Equipment Operations increased slightly to $125,000 from $121,500.

The Three Months Ended September 30, 2010 Compared With the Three Months Ended September 30, 2009

Net sales for the three months ended September 30, 2010 increased by $11,500 (.09%) to $1,255,500 from $1,244,000 for the three months ended September 30, 2009, substantially due to a $10,500 increase in sales of benchtop laboratory equipment products. Sales of catalyst research instruments, which were approximately the same for both periods, are comprised of a small number of large orders, typically averaging over $100,000 each, while benchtop laboratory equipment sales consist of a large number of small orders usually shipped from stock. The backlog of orders for catalyst research instruments products was $692,000 as of September 30, 2010, all of which are anticipated to be delivered by fiscal year end.

The gross profit percentage for the three months ended September 30, 2010 decreased to 40.5% compared to 43.1% for the three months ended September 30, 2009, mainly as a result of the reduction in the gross margins of the Catalyst Research Instruments Operations.

General and administrative expenses for the three months ended September 30, 2010 increased by $57,200 (24.9%) to $286,800 from $229,600 for the comparable period of the prior year, mainly due to an increase in office-related expenses incurred by the Catalyst Research Instruments Operations, and expenses in the investigation of possible business opportunities.

There was an immaterial reduction in selling expenses ($1,800) to $140,400 from $142,200 for the comparative three month periods.

Research and development expenses for the three months ended September 30, 2010 decreased $21,000 (19.4%) to $87,500 from $108,500 for the three months ended September 30, 2009, primarily the result of a reduction in new product development activity by the Catalyst Research Instruments Operations.

Interest and other income increased for the comparative three month periods by $5,100 (124.4%) from $4,100 to $9,200 mainly as a result of higher cash and investment balances.

The Company reflected income tax expense for the three months ended September 30, 2010 of $1,000 on income before income taxes of $3,200 compared to $16,100 on income of $59,600 for the three months ended September 30, 2009.

As a result of the foregoing, the net income for the three months ended September 30, 2010 was $2,200 compared to $43,500 for the three months ended September 30, 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure 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 has 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. The Company also concluded that information required to be disclosed in such reports is accumulated and communicated to the Company's management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There was no change in the Company's internal controls over financial reporting that occurred during the most recently completed fiscal quarter that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

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:

On September 23, 2010 Registrant filed a Report on Form 8-K, reporting under Item 8.01.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

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
and Treasurer
Principal Executive, Financial and
Accounting Officer

Date: November 12, 2010