

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10-Q

SCIENTIFIC INDUSTRIES INC  
Form 10-Q  
February 13, 2015

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For quarterly period ended December 31, 2014

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), except for a Report on Form 8-K required to be filed in February 2014 with respect to an acquisition and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

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

Large accelerated filer \_\_\_\_\_ Accelerated Filer \_\_\_\_\_

Non-accelerated filer \_\_\_\_\_ Smaller reporting company   
(Do not check if a smaller reporting company)

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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 February 2, 2015 was 1,479,112 shares.

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PART I-FINANCIAL INFORMATION  
Item 1. Financial Statements

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### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2014 (Unaudited)	June 30, 2014
Current Assets:		
Cash and cash equivalents	\$ 244,000	\$ 493,700
Investment securities	338,200	415,400
Trade accounts receivable, net	731,000	756,700
Inventories	2,416,100	2,309,200
Prepaid expenses and other current assets	160,500	123,100
Deferred taxes	87,800	86,000
Total current assets	3,977,600	4,184,100
Property and equipment at cost, net	261,100	252,100
Intangible assets, net	1,623,100	1,795,900
Goodwill	705,300	705,300
Other assets	53,600	28,200
Deferred taxes	159,800	146,200
Total assets	\$6,780,500	\$7,111,800

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 422,400	\$ 373,700
Customer advances	12,000	89,500
Bank line of credit	250,000	-
Notes payable, current portion	-	26,700
Accrued expenses and taxes	293,900	442,800
Contingent consideration, current portion	120,000	109,000
Total current liabilities	1,098,300	1,041,700
Contingent consideration, less current portion	281,100	391,000
Total liabilities	1,379,400	1,432,700
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,498,914 and 1,488,914 issued and outstanding at December 31, 2014 and at June 30, 2014	74,900	74,400
Additional paid-in capital	2,446,000	2,420,700
Accumulated other comprehensive gain (loss)	( 3,400)	1,100
Retained earnings	2,936,000	3,235,300
	5,453,500	5,731,500
Less common stock held in treasury, at cost,		

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19,802 shares	52,400	52,400
Total shareholders' equity	<u>5,401,100</u>	<u>5,679,100</u>
Total liabilities and Shareholders' equity	<u>\$6,780,500</u> =====	<u>\$7,111,800</u> =====

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2014	2013	2014	2013
Revenues	\$1,691,100	\$1,747,800	\$3,353,200	\$3,183,900
Cost of sales	1,081,700	929,700	2,163,900	1,771,600
Gross profit	<u>609,400</u>	<u>818,100</u>	<u>1,189,300</u>	<u>1,412,300</u>
Operating Expenses:				
General & administrative	446,400	342,900	852,600	645,900
Selling	229,400	207,900	524,700	404,900
Research & development	116,100	90,800	223,200	188,000
Total operating expenses	<u>791,900</u>	<u>641,600</u>	<u>1,600,500</u>	<u>1,238,800</u>
Income (loss) from operations	<u>( 182,500)</u>	<u>176,500</u>	<u>( 411,200)</u>	<u>173,500</u>
Other income (expense):				
Investment income	7,400	5,400	9,600	8,500
Other	( 5,900)	2,200	( 1,100)	5,900
Interest expense	( 1,400)	( 1,000)	( 2,700)	( 1,800)
Total other income, net	<u>100</u>	<u>6,600</u>	<u>5,800</u>	<u>12,600</u>
Income (loss) before income tax expense (benefit)	<u>( 182,400)</u>	<u>183,100</u>	<u>( 405,400)</u>	<u>186,100</u>
Income tax expense (benefit):				
Current	( 33,800)	44,800	( 91,000)	41,700
Deferred	( 10,600)	3,200	( 15,100)	7,200
Total income tax expense (benefit)	<u>( 44,400)</u>	<u>48,000</u>	<u>( 106,100)</u>	<u>48,900</u>

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Net income (loss)	(\$138,000)	\$ 135,100	(\$299,300)	\$ 137,200
	=====	=====	=====	=====
Basic and diluted earnings (loss) per common share	(\$ .09)	\$ .10	(\$ .20)	\$ .10
Cash dividends declared per common share	\$ .00	\$ .00	\$ .00	\$ .08

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2014	2013	2014	2013
Net income (loss)	(\$138,000)	\$135,100	(\$299,300)	\$137,200
Other comprehensive loss:				
Unrealized holding loss on investments arising during period, net of tax	( 3,800)	( 800)	( 4,500)	( 2,600)
Comprehensive income (loss)	(\$141,800)	\$134,300	\$303,800)	\$134,600
	=====	=====	=====	=====

See notes to unaudited condensed consolidated financial statements

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

For the Six Month Periods Ended  
December 31, 2014 December 31, 2013

Operating activities:

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Net income (loss)	(\$ 299,300)	\$ 137,200
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on sale of investments	1,300	10,500
Depreciation and amortization	220,100	88,500
Deferred income tax (benefit)	( 15,100)	7,200
Stock-based compensation	2,100	10,200
Income tax benefit of stock options exercised	4,900	-
Changes in operating assets and liabilities:		
Accounts receivable	25,700	( 110,900)
Inventories	( 106,900)	( 165,600)
Prepaid expenses and other current assets	( 37,200)	( 25,300)
Other assets	( 25,400)	-
Accounts payable	48,700	( 5,700)
Customer advances	( 77,500)	194,800
Accrued expenses	( 149,200)	( 94,100)
Total adjustments	( 108,500)	( 90,400)
Net cash provided by (used in) operating activities	( 407,800)	46,800
Investing activities:		
Purchase of investment securities, available-for-sale	( 3,800)	( 24,300)
Capital expenditures	( 52,900)	( 24,600)
Purchase of intangible assets	( 3,400)	( 1,900)
Redemption of investment securities, available for sale	75,000	275,300
Net cash provided by investing activities	14,900	224,500
Financing activities:		
Line of credit proceeds	250,000	50,000
Payment of contingent consideration	( 98,900)	-
Proceeds from exercise of stock options	18,800	6,700
Cash dividend declared and paid	-	( 107,400)
Principal payments on note payable	( 26,700)	( 38,900)
Net cash provided by (used in) financing activities	143,200	( 89,600)

See notes to unaudited condensed consolidated financial statements

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	For the Six Month Periods Ended	
	December 31, 2014	December 31, 2013
Net increase (decrease) in cash and cash equivalents	( 249,700)	181,700
Cash and cash equivalents, beginning of year	493,700	927,300
Cash and cash equivalents, end of period	\$ 244,000	\$1,109,000
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	\$ 3,500	\$ 100,000
Interest	2,700	1,800
Non-cash investing and financing activities (Note 3)		

See notes to unaudited condensed consolidated financial statements

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### 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, 2014. The results for the three and six months ended December 31, 2014, are not necessarily an indication of the results for the full fiscal year ending June 30, 2015.

1. Summary of significant accounting policies:

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of Scientific Industries, Inc. ("Scientific", a Delaware corporation), Altamira Instruments, Inc. ("Altamira", a wholly-owned subsidiary and Delaware corporation), Scientific Packaging Industries, Inc. (an inactive wholly-owned subsidiary and New York corporation) and Scientific Bioprocessing, Inc. ("SBI", a wholly-owned subsidiary

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and Delaware corporation). All are collectively referred to as the "Company". All material intercompany balances and transactions have been eliminated.

### 2. New Accounting Pronouncements:

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers amending revenue recognition requirements for multiple-deliverable revenue arrangements. This update provides guidance on how revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. This determination is made in five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The update is effective for the Company beginning July 1, 2017. Early adoption is not permitted. The Company is currently evaluating the impact this guidance may have on its financial condition and results of operations.

In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved After the Requisite Service Period. This update affects reporting entities that grant their

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employee's targets that affects vesting could be achieved after the requisite service period. The new standard requires that a performance target that affects vesting and that could be achieved after the requisite services period be treated as a performance condition. The new standard will be effective for the Company beginning July 1, 2015, and early adoption is permitted. The Company expects the adoption will not have a material impact on its financial condition, results of operations or cash flows.

### 3. Acquisition:

On February 26, 2014, the Company acquired substantially all the assets of a privately owned company consisting principally of inventory, fixed assets, and intangible assets related to the production and sale of a variety of laboratory and pharmacy balances and scales. The acquisition was pursuant to an asset purchase agreement whereby the Company paid the sellers \$700,000 in cash, 126,449 shares of Common Stock valued at \$427,500 (of which 31,612 are held in escrow for one year) and agreed to make additional cash payment based on a percentage of net sales of the business acquired equal to 8% for the period ending June 30, 2014 annualized amounting to \$98,900, 9% for the year ending June 30, 2015, 10% for the year ending June 30, 2016 and 11% for the year ending June 30, 2017, estimated at a present value of \$460,000 on the date of acquisition. Payments related to this contingent consideration for each period are due in September following the fiscal year.



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The products, which are similar to the Company's other Benchtop Laboratory Equipment, and in many cases used by the same customers, are marketed under the Torbal(R) brand. The principal customers are pharmacies, pharmacy schools, universities, government laboratories, and industries utilizing precision scales. The products are sold primarily on a direct basis, including through the Company's e-commerce site.

The Company allocated the purchase price based on its valuation of the assets acquired, as follows:

Current assets	\$ 144,000
Property and equipment	118,100
Goodwill*	115,400
Other intangible assets	1,210,000
Total Purchase Price	<u>\$1,587,500</u> =====

\*See Note 8, "Goodwill and Other Intangible Assets".

Of the \$1,210,000 of the acquired other intangible assets, \$570,000 was assigned to technology and websites with a useful life of 5 years, \$120,000 was assigned to customer relationships with an estimated useful life of 9 years, \$140,000 was assigned to the trade name with an estimated useful life of 6 years, \$110,000 was assigned to the IPR&D with an estimated useful life of 3 years, and \$270,000 was assigned to non-compete agreements with an estimated useful life of 5 years.

In connection with the acquisition, the Company entered into a three-year employment agreement with the previous Chief Operating Officer of the acquired business as President of the Company's new Torbal Division and Director of Marketing for the Company. The agreement may be extended by mutual consent for an additional two years.

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The Company was unable to obtain audited financial statements of the business acquired in connection with the acquisition. The inability to include the related audited financial statements as required by the Securities Exchange Act of 1934 in the related Report on Form 8-K filing resulted in the inability of the Company to register under the Securities Act of 1933, as amended, offerings of the Company's securities during the one year period ending February 2015.

### Pro forma results

The unaudited pro forma condensed consolidated financial information in the table below summarizes the consolidated results of operations of the Company including its new Torbal Division, on a pro forma basis, as though the companies had been consolidated as of the beginning of the fiscal year

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ended June 30, 2014. The unaudited pro forma condensed financial information presented below is for informational purposes only and is not intended to represent or be indicative of the consolidated results of the operations that would have been achieved if the acquisition had been completed as of the commencement of the fiscal year presented. In addition, the Company was unable to obtain audited historical information and, therefore the information presented is based on management's best judgment.

	For the Three Month Period Ended December 31, 2013	For the Six Month Period Ended December 31, 2013
Net Revenues	\$1,955,500	\$3,647,600
Net Income	\$ 85,800	\$ 49,000
Net earnings per share		
- basic	\$ .06	\$ .03
Net earnings per share		
- diluted	\$ .06	\$ .03

#### 4. Segment Information and Concentrations:

The Company views its operations as three 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"), 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") and the marketing and production of bioprocessing systems for laboratory research in the biotechnology industry sold directly to customers and through distributors ("Bioprocessing Systems").

Segment information is reported as follows (foreign sales are principally to customers in Europe and Asia):