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SCIENTIFIC INDUSTRIES INC
Form 10QSB
May 14, 2003

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

FORM 10-QSB

(Mark One)

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

For quarterly period ended MARCH 31, 2003

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 [x] No []

State the number of shares outstanding of each of the issuer's classes of common equity, as of April 30, 2003: 960,541 shares outstanding of the Company's Common Stock, par value, \$.05.

Transitional Small Business Disclosure Format (check one):

Yes [] No [x]

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

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CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

ASSETS	March 31, 2003
<hr style="border-top: 1px dashed black;"/>	
Current Assets:	
Cash and cash equivalents	\$ 201,900
Investment securities	637,700
Trade accounts receivable, less allowance for doubtful accounts of \$7,400	384,700
Inventories	603,100
Prepaid expenses and other current assets	39,800
Total current assets	<hr style="border-top: 1px dashed black;"/> 1,867,200 <hr style="border-top: 1px dashed black;"/>
Property and equipment at cost, less accumulated depreciation of \$378,300	<hr style="border-top: 1px dashed black;"/> 155,000 <hr style="border-top: 1px dashed black;"/>
Other assets and deferred charges:	
Intangible assets, less accumulated amortization of \$35,700	14,800
Deferred taxes	106,600
Other	68,700
	190,100
	<hr style="border-top: 1px dashed black;"/> \$2,212,300 <hr style="border-top: 1px dashed black;"/> =====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	\$ 76,100
Accrued expenses	157,800
Total current liabilities	233,900
Deferred compensation	38,300
Shareholders' equity:	
Common stock \$.05 par value	49,000
Additional paid-in capital	967,000
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(3,300)
Retained earnings	979,800
	<hr style="border-top: 1px dashed black;"/> 1,992,500 <hr style="border-top: 1px dashed black;"/>
Less common stock held in treasury, at cost	52,400
	<hr style="border-top: 1px dashed black;"/> 1,940,100 <hr style="border-top: 1px dashed black;"/>
	<hr style="border-top: 1px dashed black;"/> \$2,212,300 <hr style="border-top: 1px dashed black;"/> =====

See notes to condensed unaudited consolidated financial statements

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	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2003	2002	2003	2002
Net sales	\$ 792,600	892,000	\$2,476,600	\$2,686,000
Cost of goods sold	471,900	540,500	1,469,000	1,609,500
	-----	-----	-----	-----
Gross profit	320,700	351,500	1,007,600	1,076,500
	-----	-----	-----	-----
Operating Expenses:				
General and administrative	166,600	219,100	637,400	633,200
Selling	63,400	46,700	140,000	130,300
Research and development	63,100	74,500	207,400	222,300
	-----	-----	-----	-----
	293,100	340,300	984,800	985,800
	-----	-----	-----	-----
Income from operations	27,600	11,200	22,800	90,700
	-----	-----	-----	-----
Other income (expenses):				
Other	-	-	(6,100)	-
Interest	2,600	2,400	13,200	16,000
	-----	-----	-----	-----
	2,600	2,400	7,100	16,000
	-----	-----	-----	-----
Income before income taxes	30,200	13,600	29,900	106,700
Income taxes	6,400	3,000	6,400	32,000
	-----	-----	-----	-----
Net income	\$ 23,800	\$ 10,600	\$ 23,500	\$ 74,700
	=====	=====	=====	=====
Net income per common share - basic	\$.02	\$.01	\$.02	\$.08
Net income per common share - diluted	\$.02	\$.01	\$.02	\$.07

See notes to condensed unaudited consolidated financial statements

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

	For the Nine Month Periods Ended	
	March 31, 2003	March 31, 2002
	-----	-----
Operating activities:		
Net Income	\$ 23,500	\$ 74,700
Adjustments to reconcile net income		

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to net cash provided by (used in)

operating activities:

Gain on sale of investments	(800)	(4,400)
Loss on disposal of assets	6,400	-
Depreciation and amortization	48,500	48,100
Change in assets and liabilities:		
Accounts receivable	(108,700)	(277,900)
Inventories	76,000	(25,600)
Prepaid expenses and other current assets	23,400	42,200
Other assets	25,800	5,500
Accounts payable	(8,300)	(55,500)
Accrued expenses	(23,400)	106,300
Deferred compensation	(21,200)	-
	-----	-----
Total adjustments	17,700	(161,300)
	-----	-----
Net cash provided by (used in) operating activities	41,200	(86,600)
	-----	-----

Investing activities:

Purchase of investment securities, available for sale	(227,000)	(114,700)
Purchase of investment securities, held to maturity	(72,600)	(310,200)
Redemptions of investment securities, available-for-sale	80,000	175,300
Redemptions of investment securities, held to maturity	110,600	156,500
Capital expenditures	(51,900)	(22,100)
Proceeds from sale of assets	31,000	-
Purchase of intangible assets	(12,800)	(700)
	-----	-----
Net cash used in investing activities	(142,700)	(115,900)
	-----	-----

Financing activities;

exercise of stock options	6,600	46,100
	-----	-----

Net decrease in cash and cash
equivalents

(94,900)	(156,400)

Cash and cash equivalents, beginning of year

296,800	275,400

Cash and cash equivalents, end of period

\$ 201,900	\$ 119,000
=====	=====

Supplemental disclosures:

Cash paid during the period for:

Income Taxes	\$ 29,800	\$ 6,500
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See notes to condensed unaudited consolidated financial statements

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NOTES TO CONDENSED UNAUDITED 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, 2002. The results for the three and nine months ended March 31, 2003, 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 and an inactive wholly owned subsidiary of the Company. All intercompany items and transactions have been eliminated in consolidation.

2. 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:

	March 31, 2003
Raw Materials	\$ 498,000
Work in process	30,000
Finished Goods	75,100

	\$ 603,100
	=====

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3. Net income per Common Share:

Basic net income per Common Share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted net income per Common Share includes the dilutive effect of stock options and a warrant.

Net income per Common Share was computed as follows:

	For the Three Month Periods Ended March 31, 2003 2002		For the Nine Month Periods Ended March 31, 2003 2002	
Net income	\$ 23,800	\$ 10,600	\$ 23,500	\$ 74,700
Weighted average common shares outstanding	957,474	945,296	954,180	924,117
Effect of dilutive securities	32,776	75,063	41,865	89,542
Weighted average dilutive common shares outstanding	990,250	1,020,359	996,045	1,013,659
Net income per common share - basic	\$.02	\$.01	\$.02	\$.08
Net income per common share - diluted	\$.02	\$.01	\$.02	\$.07

In addition to the shares subject to options which were included in determining the diluted earnings per share, there were outstanding unexercised employee stock options as of March 31, 2003 to purchase 56,000 shares of the Company's Common Stock at \$1.875 to \$2.40 per share, and as of March 31, 2002, to purchase 16,000 shares at \$2.40 per share which were not included in the foregoing computation to determine diluted earnings per share, because the options' exercise price was greater than the average market price of the Company's Common Stock during the period.

4. Comprehensive Income:

The Company adopted SFAS No. 130, "Reporting Comprehensive Income," which established standards for reporting and displaying comprehensive income in financial statements. There was no significant difference between net income and comprehensive income for the three and nine month periods ended March 31, 2003 and the three and nine month periods ended March 31, 2002.

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

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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

The Company's working capital as of March 31, 2003, increased \$101,900 to \$1,633,300 compared to \$1,531,400 at June 30, 2002 primarily due to certain long-term investment securities becoming current assets as of March 31, 2003. The Company has available for its working capital needs, a secured bank line of credit of \$200,000 with North Fork Bank which expires on November 1, 2003, all of which was available as of March 31, 2003, and is to bear interest on amounts advanced thereunder at prime plus 1%. Management believes that the Company will be able to meet its cash flow needs during the 12 months ended March 31, 2004 from its available financial resources which includes its cash and investment securities.

Results of Operations

Financial Overview

Net sales for the three and nine month periods ended March 31, 2003 were \$99,400 and \$209,400 lower than the corresponding periods of the prior fiscal year. The Company believes that the reduction in sales, which began in the last quarter of Fiscal 2002, was the result of several factors, principally the general economic slowdown which has affected purchasing budgets of end-users of laboratory equipment and the replacement in January 2002 of the Company by a competitor as the supplier of the private label vortex mixer of Fisher Scientific Company, a United States distributor of the Company's products. Sales to the distributor, primarily the Company's Vortex-Genie (registered trademark) 2 Mixer and related accessories, accounted for 36%, 33% and 27%, respectively, of the Company's gross sales for the years ended June 30, 2001 and June 30, 2002 and the nine months ended March 31, 2003. While the Company expects that the offer by the distributor of its private label vortex mixer in competition with the Company will continue to have an adverse effect on Company's sales, it also expects that the recent inclusion of the Company's Vortex-Genie 2 Mixer in the 2-year catalogue of the U.S.'s second largest distributor of laboratory

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

products, which also offers its own private label vortex mixer, will at least partially offset the impact. A further offset will be the sales derived from the recent product additions to the Vortex-Genie line, namely the Vortex-Genie 1 and Vortex-Genie 2T.

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The Company's profitability for the nine month period ended March 31, 2003 (the "Fiscal 2003 Nine Month Period") was negatively impacted by costs of \$72,300 incurred with respect to a proxy contest as to the election of Directors and the Company's 2002 Stock Option Plan instituted unsuccessfully by the Company's former Chairman of the Board, Chief Executive Officer and President (the "Former CEO") in connection with the 2002 Annual Meeting of Stockholders.

The Company has significantly reduced its general and administrative expenses as a result of the termination of its compensation obligations to the Former CEO whose employment ended on August 29, 2002, partially offset by increases in the salaries of its new Chief Executive Officer who had been Vice President, Contoller and Secretary and its Executive Vice President who had been Vice President Commencing in January 2003, the Company substantially increased its marketing efforts and expenditures under its revised strategy for sales growth with: (i) the employment of a Director of Sales and Marketing; (ii) the entry into a long-term agreement providing for a material increase in the services of its marketing consultant, who earlier had been a marketing employee of the Company's principal customer and who was elected a Director of the Company at the Annual Meeting of Stockholders in November 2002, and (iii) an expanded promotion and advertising program. No assurance can be given that these efforts and expenditures will result in increased sales and be beneficial to the Company's operating results.

The Three Months Ended March 31, 2003 Compared with the Three Months Ended March 31, 2002.

Net sales of \$792,600 for the three months ended March 31, 2003, were \$99,400 (11.2%) lower than net sales of \$892,000 for the three months ended March 31, 2002. The decrease was primarily the result of lower foreign sales in the months of February and March, reflecting a general slow-down in orders from foreign customers which has continued through the date of this Report, coupled with higher-than-usual purchase orders from a few foreign customers during the three month period ended March 31, 2002.

Despite the lower sales and fixed overhead costs, the gross profit percentage for the three months ended March 31, 2003 increased to 40.5%, compared to 39.4% for the three months ended March 31, 2002, principally as a result of a reduction in factory labor personnel.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

General and administrative expenses for the three months ended March 31, 2003 decreased by \$52,500 (24.0%) to \$166,600 compared to \$219,100 for the three months ended March 31, 2002, primarily as a result of (i) the discontinuation of the compensation and benefits provided to the Former CEO, partially offset by both the increases in the salaries of the two executive officers of the Company and (ii) the expenses incurred in the comparable prior fiscal year period under a financial advisor's agreement which expired on March 31, 2002.

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Selling expenses for the three months ended March 31, 2003 were \$63,400, a 35.8% (\$16,700) increase from \$46,700 for the three months ended March 31, 2002, primarily the result of the employment in January 2003 of a Director of Sales and Marketing, and the increase in the services and fees of the Company's marketing consultant.

Research and development expenses decreased by \$11,400 (15.3%) to \$63,100 for the three months ended March 31, 2003 from \$74,500 for the comparable period of the prior fiscal year as a result of the reduction of in-house engineering staff and the engagement of a lower cost outside engineering firm.

The Nine Months Ended March 31, 2003 ("Fiscal 2003 Nine Month Period") Compared with the Nine Months Ended March 31, 2002 ("Fiscal 2002 Nine Month Period").

Net sales decreased \$209,400 (7.8%) to \$2,476,600 for the Fiscal 2003 Nine Month Period compared to \$2,686,000 for the Fiscal 2002 Nine Month Period primarily due to lower unit sales of the Vortex-Genie 2 Mixer to domestic distributors resulting from (i) increased competition and (ii) the discontinuance of the Company as the supplier of the private label vortex mixer for its largest customer, partially offset by an increase in unit sales of the new Vortex-Genie 1 and Vortex-Genie 2T mixers which were introduced at the end of fiscal year 2001.

Despite the lower level of sales and fixed overhead costs, the gross profit of 40.7% for the Fiscal 2003 Nine Month Period exceeded the gross profit of 40.0% for the Fiscal 2002 Nine Month Period, as a result of the reduction in factory labor personnel.

The Company's general and administrative expenses for the Fiscal 2003 Nine Month Period of \$637,400 included \$72,300 of expenses incurred with respect to the proxy contest referred to under "Financial Overview" above and an increase in legal fees, but benefitted from the discontinuation in August 2002 of the compensation and benefits payable to the Former CEO partially offset by the increase in the salaries of its two remaining executives, including the new Chief Executive Officer who had been Vice President, Controller and Secretary. General and administrative expenses for the Fiscal 2002 Nine Month Period of \$633,200 included \$56,000 incurred under a financial advisory agreement, which expired on March 31, 2002.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

The expansion of the Company's sales and marketing efforts commencing in January 2003, including the hiring of a Director of Sales and Marketing, and the increase of the services and fees of the Company's marketing consultant, resulted in an increase of \$9,700 (7.5%) to \$140,000 in selling expenses for the Fiscal 2003 Nine Month Period compared to \$130,300 for the comparable period of the prior fiscal year.

Research and development expenses decreased by \$14,900 (6.7%) to \$207,400 for the Fiscal 2003 Nine Month Period from \$222,300 for the comparable period of the prior fiscal year as a result of the reduction of in-house engineering staff and engagement of a lower cost outside engineering firm.

Other income (expenses) of \$6,100 for the Fiscal 2003 Nine Month Period

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reflects the loss suffered upon the termination of a lease of an automobile used by the Former CEO.

ITEM 3. CONTROLS AND PROCEDURES

- a. The Company's Chief Executive Officer who is also the Company's Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13-a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended), (the "1934 Act") as of a date within 90 days of filing this quarterly report (the "Evaluation Date"), and has concluded, based on her evaluation, that as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the 1934 Act, and the rules and regulations promulgated thereunder.
- b. There were no significant changes in or any need for corrective action as to the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceedings. However, a financial advisor employed by the Company pursuant to an engagement letter that was not extended by the Company beyond its expiration date of March 31, 2002 asserted a claim against the Company in April 2002 in the amount of \$125,000 for alleged services rendered to the Company that were alleged to be outside the scope of the letter. The Company denies engaging the financial advisor for any services outside the scope of the engagement letter or that any amounts are owing to the advisor. The Company's counsel has advised the Company that based on its review of the engagement letter and the Company's denial, it is unlikely that the financial advisor will prevail if it institutes a legal proceeding.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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(a) Additional Exhibits:

99.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K: On January 6, 2003 (amended January 22, 2003) the Company filed a current report on Form 8-K with the Commission, containing information under Item 5.

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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, thereunto duly authorized.

Scientific Industries, Inc.
Registrant

/s/ Helena R. Santos

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

Date: May 14, 2003

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CERTIFICATION PURSUANT TO
18 U.S.C. SS.1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Helena R. Santos, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Scientific Industries, Inc. (the "registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a and 15d-14) for the registrant and I have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

I have disclosed, based on my most recent evaluation, to the registrant's auditors and the registrant's Board of Directors:

- d) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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- e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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- 5. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003

By: /s/ Helena R. Santos

Helena R. Santos, Chief Executive Officer and Chief Financial Officer

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Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned as Chief Executive Officer and Chief Financial Officer of the Company, does hereby certify that the foregoing Quarterly Report of SCIENTIFIC INDUSTRIES, INC. (the "Company"), on Form 10-QSB for the period ending March 31, 2003 (the "Report"):

- (1) Fully complies with the requirements of section 13 or 15 (d) of the Securities Exchange Act of 1934; and
- (2) Fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Helena R. Santos

Helena R. Santos
Chief Executive Officer and
Chief Financial Officer

Date: May 14, 2003

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A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.