

Edgar Filing: SCIENTIFIC INDUSTRIES INC - Form 10QSB

SCIENTIFIC INDUSTRIES INC  
Form 10QSB  
May 17, 2004

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, 2004

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, 2004: 975,541 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

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## SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

### ASSETS

March 31, 2004

Current Assets:

Cash and cash equivalents	\$	325,600
Investment securities		644,700
Trade accounts receivable, less allowance for doubtful accounts of \$7,400		440,900
Inventories		623,000
Prepaid expenses and other current assets		50,600
		-----
Total current assets		2,084,800
		-----

Property and equipment at cost, less accumulated depreciation of \$432,200		155,700
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Other assets and deferred charges:

Intangible assets, less accumulated amortization of \$40,300		11,900
Deferred taxes		113,600
Other		66,400
		191,900
		-----
		\$2,432,400
		=====

### LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$	94,500
Accrued expenses		206,500
		-----
Total current liabilities		301,000
		-----

Deferred compensation		34,700
		-----

Shareholders' equity:

Common stock \$.05 par value; authorized 7,000,000 shares; 995,343 issued and outstanding		49,800
Additional paid-in capital		983,400
Accumulated other comprehensive gain, unrealized holding gain on investment securities		4,800
Retained earnings		1,111,100
		-----
		2,149,100
Less common stock held in treasury, at cost; 19,802 shares		52,400
		-----
		2,096,700
		-----
		\$2,432,400
		=====

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,	
	2004	2003	2004	2003
Net sales	\$ 856,900	\$ 792,600	\$2,600,500	\$2,476,600
Cost of goods sold	455,100	471,900	1,379,900	1,469,000
Gross profit	401,800	320,700	1,220,600	1,007,600
Operating Expenses:				
General and administrative	170,100	166,600	497,100	637,400
Selling	69,900	63,400	248,400	140,000
Research and development	93,800	63,100	288,500	207,400
	333,800	293,100	1,034,000	984,800
Income from operations	68,000	27,600	186,600	22,800
Interest and other income	5,600	2,600	12,700	7,100
Income before income taxes	73,600	30,200	199,300	29,900
Income taxes	25,000	6,400	60,000	6,400
Net income	\$ 48,600	\$ 23,800	\$ 139,300	\$ 23,500
Net income per common share - basic	\$ .05	\$ .02	\$ .14	\$ .02
Net income per common share - diluted	\$ .05	\$ .02	\$ .14	\$ .02
Cash dividends declared per common share	\$ .05	\$ -	\$ .05	\$ -

See notes to unaudited condensed consolidated financial statements

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

For the Nine Month Periods Ended  
March 31, 2004      March 31, 2003

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Operating activities:		
Net income	\$ 139,300	\$ 23,500
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sale of investments	800	( 800)
Loss on disposal of assets	200	6,400
Depreciation and amortization	52,100	48,500
Change in assets and liabilities:		
Accounts receivable	( 31,300)	( 108,700)
Inventories	( 40,800)	76,000
Prepaid expenses and other current assets	14,000	23,400
Other assets	9,000	25,800
Accounts payable	36,400	( 8,300)
Accrued expenses	80,200	( 23,400)
Deferred compensation	( 9,100)	( 21,200)
	-----	-----
Total adjustments	111,500	17,700
	-----	-----
Net cash provided by operating activities	250,800	41,200
	-----	-----
Investing activities:		
Purchase of investment securities, available for sale	( 171,600)	( 227,000)
Purchase of investment securities, held to maturity	-	( 72,600)
Redemptions of investment securities, available-for-sale	92,600	80,000
Redemptions of investment securities, held to maturity	130,800	110,600
Capital expenditures	( 49,400)	( 51,900)
Proceeds from sale of fixed assets	200	31,000
Purchase of intangible assets	-	( 12,800)
	-----	-----
Net cash provided by (used in) investing activities	2,600	( 142,700)
	-----	-----
Financing activities:		
Exercise of stock options	12,900	6,600
Cash dividend declared and paid	( 48,300)	-
	-----	-----
Net cash provided by (used in) financing activities	( 35,400)	6,600
	-----	-----
Net increase (decrease) in cash and cash equivalents	218,000	( 94,900)
Cash and cash equivalents, beginning of year	107,600	296,800
	-----	-----
Cash and cash equivalents, end of period	\$ 325,600	\$ 201,900
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 200	\$ 29,800

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, 2003. The results for the three and nine months ended March 31, 2004, 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. Line of Business and Concentrations:

The Company is engaged in the manufacturing and marketing of equipment for research in university, hospital and industrial laboratories. The Company believes that it has only one reportable segment. Sales of the Company's principal product, the Vortex-Genie(R) 2 mixer, accounted for approximately 76% and 77% of net sales for the three month periods ended March 31, 2004 and 2003, respectively and 77% and 82% of net sales for the nine month periods ended March 31, 2004 and 2003, respectively.

The Company's export sales (principally Europe and Asia) were approximately \$414,000 and \$341,700 for the three month periods ended March 31, 2004 and 2003, respectively, and \$1,165,800 and \$1,224,000 for the nine month periods ended March 31, 2004 and 2003, respectively.

Three of the Company's customers accounted in the aggregate for 49% and 53% of net sales for the three month periods ended March 31, 2004 and 2003, respectively, and 54% and 51% of total net sales for the nine month periods ended March 31, 2004 and 2003, respectively.

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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 at the end of the applicable periods. Components of inventory are as follows:

	March 31, 2004
	-----
Raw Materials	\$ 543,400
Work in process	34,800
Finished Goods	44,800
	-----
	\$ 623,000
	=====

4. 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,		For the Nine Month Periods Ended March 31,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net income	\$ 48,600	\$ 23,800	\$ 139,300	\$ 23,500
	=====	=====	=====	=====
Weighted average common shares outstanding	964,398	957,474	961,817	954,180
Effect of dilutive securities	72,676	32,776	48,971	41,865
	-----	-----	-----	-----
Weighted average dilutive common shares outstanding	1,037,074	990,250	1,010,788	996,045
	=====	=====	=====	=====
Net income per common share - basic	\$ .05	\$ .02	\$ .14	\$ .02
Net income per common share - diluted	\$ .05	\$ .02	\$ .14	\$ .02

5. Comprehensive Income:

There was no significant difference between net income and

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comprehensive income for the three and nine month periods ended March 31, 2004 and 2003.

5

### 6. Stock-Based Compensation Plans:

The Company maintains an Incentive Stock Option Plan which it accounts for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based compensation costs are reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2004	2003	2004	2003
Net income:				
As reported	\$ 48,600	\$23,800	\$139,300	\$23,500
Pro Forma	48,300	23,500	135,700	23,000
Net income per common and common equivalent share:				
Basic - as reported	\$ .05	\$ .02	\$ .14	\$ .02
Basic - pro forma	\$ .05	\$ .02	\$ .14	\$ .02
Diluted - as reported	\$ .05	\$ .02	\$ .14	\$ .02
Diluted - pro forma	\$ .05	\$ .02	\$ .13	\$ .02

6

### 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

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limited to, product demand, market acceptance, success of marketing strategy, impact of competition, the ability to reach final agreements, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control. Consequently, no forward-looking statement can be guaranteed.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

### Liquidity and Capital Resources

Net cash provided by operating activities was \$250,800 for the nine month period of the current fiscal year as compared to \$41,200 in the comparative period for 2003. The principal factors accounting for the difference were (i) higher net income, (ii) lower increase in accounts receivable by \$77,400 because of an unusually large sale to a foreign customer during the three months ended March 31, 2003, and (iii) a \$103,600 increase in accrued expenses mainly due to customer allowances and income tax accruals. Cash provided by investing activities was \$2,600 for the current period as compared to \$142,700 (used in) the nine months ended March 31, 2003 reflecting lesser purchases of investment securities and greater amount of redemptions during the current year and a sale in the prior year period of a previously leased auto related to the termination of the Company's former chief executive officer. The principal reason that cash (used in) financing activities was \$35,400 compared to cash provided of \$6,600 in the prior year period was the \$48,300 cash dividend declared and paid in March 2004. As a result of the foregoing, cash and cash equivalents increased by \$218,000 to \$325,600 as of March 31, 2004 from a balance of \$107,600 as of June 30, 2003.

The Company's working capital as of March 31, 2004 increased \$108,800 to \$1,783,800 compared to \$1,675,000 at June 30, 2003. The increase was generated from profitable 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 which expires on November 1, 2004 with interest at prime, all of which was available as of March 31, 2004. Management believes that the Company will be able to meet its cash flow needs during the next 12 months from its available financial resources which include its cash and investment securities.

7

## SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

### Results of Operations

#### Financial Overview

Commencing in January 2003, the Company substantially increased its marketing and product development efforts and expenditures under its revised strategy for sales growth with (i) the employment of a Director of Sales and Marketing, (ii) an expanded promotion and advertising program, and (iii) increased commitment



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of funds to research and development activity.

The Company also intensified its efforts to increase the Company's profitability by continuing to seek economies through a search for alternative, lower cost quality sources for its material components (mostly from overseas), and evaluating its labor requirements on an ongoing basis for achievement of overall cost reductions.

Primarily as a result of these factors, the Company reflected increases for the three and nine month periods ended March 31, 2004 over the three and nine month periods ended March 31, 2003 as follows:

- \* Increases in net sales of 8.1% and 5%, respectively.
- \* Increases in gross profit margin percentages of 6.4% and 6.2%, respectively.
- \* Increases in selling expenses of 10.3% and 77.4%, respectively.
- \* Increases in research and development expenses of 48.7% and 39.1%, respectively.

These increases in sales and gross profit margins were the principal reason for the improvement in net income to \$48,600 and \$139,300 for the three and nine months ended March 31, 2004 from \$23,800 and \$23,500, respectively for the year earlier comparable periods.

The Three Months Ended March 31, 2004 Compared with the Three Months Ended March 31, 2003.

Net sales for the three months ended March 31, 2004 increased by \$64,300 (8.1%) to \$856,900 from \$792,600 for the three months ended March 31, 2003, primarily the result of a \$40,000 increase to \$648,000 in sales of our Vortex-Genie 2(R) mixer, mainly to overseas customers, a \$31,000 increase to \$151,000 from \$123,000 in sales of our new products, especially the Vortex Genie(R) 1 and Vortex-Genie 2T, and higher product accessory sales for all of our products. The gross profit was \$401,800 for the three months ended March 31, 2004, a gross profit margin of 46.9% as compared with \$320,700, a gross profit margin of 40.5% for the three months ended March 31, 2003, primarily due to increased overseas purchases of material components for the Vortex-Genie(R) 2 mixer at lower cost, and lower labor and labor related costs.

There was little change in general and administrative expenses for the three months ended March 31, 2004 - a slight increase of \$3,500 to \$170,100 from \$166,600 for the three months ended March 31, 2003.

### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

Selling expenses for the three months ended March 31, 2004 increased \$6,500 (10.3%) to \$69,900 as compared to \$63,400 for the three months ended March 31, 2003, mainly due to advertising expenses which the company began incurring at the end of fiscal

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year 2003.

Research and development expenses increased by \$30,700 (48.7%) to \$93,800 for the three months ended March 31, 2004 from \$63,100 for the comparable prior year period as a result of increased new product development.

The Company's income before income taxes increased \$43,400 (144%) to \$73,600 for the three months ended March 31, 2004 compared to \$30,200 for the three months ended March 31, 2003.

The increase in income tax expense for the three months ended March 31, 2004 to \$25,000 from \$6,400 was a result of the higher income for the current period.

As a result of the foregoing, net income was \$48,600 as compared to \$23,800 for the comparable period last year.

The Nine Months Ended March 31, 2004 Compared with the Nine Months Ended March 31, 2003.

Net sales increased \$123,900 (5.0%) to \$2,600,500 for the nine months ended March 31, 2004 compared to \$2,476,600 for the nine months ended March 31, 2003, primarily due to a \$170,000 increase to \$464,000 from \$294,000 in sales of our new products, especially the Disruptor Genie(TM), Vortex Genie 1 and Vortex Genie 2T and product accessories for all of our products, offset slightly by a \$24,000 decline to \$2,011,000 in the sales of our Vortex-Genie 2 mixer and certain customer allowances.

The gross profit margin of 46.9% for the nine months ended March 31, 2004, was higher than the gross profit margin of 40.7% for the nine months ended March 31, 2003 primarily due to higher margins on average of our new products, increased overseas purchases of material components for the Vortex-Genie 2 mixer at lower cost, and lower labor and labor related costs.

General and administrative expenses for the nine months ended March 31, 2004 were \$497,100, a decrease of \$140,300 (22.0%) from \$637,400 for the nine months ended March 31, 2003 which period suffered \$72,300 of proxy costs in connection with the proxy contest initiated by the former Chief Executive Officer, and costs incurred in connection with termination of his employment in August 2002.

Selling expenses for the nine months ended March 31, 2004 increased \$108,400 (77.4%) to \$248,400, from \$140,000 for the nine months ended March 31, 2003, the result of the Company's expansion of its sales and marketing functions, including the hiring of a new director of sales and marketing in January 2003, incurrence of advertising expenses and other marketing activities.

### SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

Research and development expenses increased by \$81,100 (39.1%) to \$288,500 for the nine months ended March 31, 2004 from \$207,400

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for the comparable prior year period as a result of increased new product development.

The Company's income before income taxes increased to \$199,300 for the nine months ended March 31, 2004 compared to \$29,900 for the nine months ended March 31, 2003.

As a result of the higher income for the period, income tax expense was \$60,000, compared to \$6,400 in the prior year comparable period.

As a result of the foregoing, net income increased to \$139,300 from \$23,500 for the nine month year earlier comparable period.

10

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:

Registrant filed reports on Form 8-K on February 26, 2004 and March 3, 2004 reporting under Item 5, Other Events and Regulation FD Disclosure.

11

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

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undersigned, thereunto duly authorized.

Scientific Industries, Inc.  
Registrant

/s/Helena R. Santos

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

Date: May 17, 2004