SCIENTIFIC INDUSTRIES INC
Form 10QSB/A
April 21, 2005

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

FORM 10-QSB/A
AMENDMENT NO. 1

(Mark One)
X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended DECEMBER 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 as specified in its charter)

Delaware	04-2217279
(State of incorporation)	(IRS 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 February 6, 2005: 977,207 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
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 2004
Current Assets:	
Cash and cash equivalents	$ 155,700
Investment securities	940,600
Trade accounts receivable, less allowance for doubtful accounts of $11,600	470,700
Inventories	693,900
Prepaid expenses and other current assets	64,400
Deferred taxes	57,000
Total current assets	2,382,300
Property and equipment at cost, less accumulated depreciation of $415,500	152,200
Deferred taxes	8,800
Intangible assets, less accumulated amortization of $44,000	17,300
Other	59,700
	$2,620,300

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	$ 119,800
Accrued expenses and taxes	141,500
Dividends payable	68,300
Total current liabilities	329,600
Deferred compensation	39,200
Shareholders' equity:	
Common stock, $.05 par value; authorized 7,000,000 shares; 997,009 issued and outstanding	49,900
Additional paid-in capital	986,600
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(4,200)
Retained earnings	1,271,600
	2,303,900
Less common stock held in treasury, at cost, 19,802 shares	52,400
	2,251,500
	$2,620,300

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31, 2004	2003	For the Six Month Periods Ended December 31, 2004	2003
Net sales	$845,100	$869,700	$1,696,900	$1,743,600
Cost of goods sold	436,500	468,200	891,000	933,100
Gross profit	408,600	401,500	805,900	810,500
Operating Expenses:				
General & administrative	167,900	162,900	345,400	327,000
Selling	81,300	78,600	149,200	178,500
Research & development	88,500	83,800	170,400	186,400
	337,700	325,300	665,000	691,900
Income from operations	70,900	76,200	140,900	118,600
Interest & other income	7,900	4,500	14,500	7,100
Income before income taxes	78,800	80,700	155,400	125,700
Income tax expense (benefit):				
Current	(4,000)	20,000	14,000	35,000
Deferred	22,000	-	22,000	-
	18,000	20,000	36,000	35,000
Net income	$ 60,800	$ 60,700	$ 119,400	$ 90,700
Basic earnings per common share	$ .06	$ .06	$ .12	$ .09
Diluted earnings per common share	$ .06	$ .06	$ .11	$ .09
Cash dividends declared per common share	$ -	$ -	$ .07	$ -

See notes to unaudited condensed consolidated financial statements

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

	For the Six Month Periods Ended December 31, 2004	December 31, 2003
Operating activities:		
Net income	$ 119,400	$ 90,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of investments	-	800
Depreciation and amortization	32,500	34,900
Change in assets and liabilities:		
Deferred income taxes	22,000	-
Income tax benefit of stock options exercised	500	-
Accounts receivable	(81,900)	(24,800)
Inventories	(27,700)	27,000
Prepaid expenses and other current assets	(6,200)	15,200
Other assets	13,100	(8,300)
Accounts payable	43,800	(10,000)
Accrued expenses and taxes	(18,600)	91,500
Deferred compensation	3,200	8,300
Total adjustments	(19,300)	134,600
Net cash provided by operating activities	100,100	225,300
Investing activities:		
Purchase of investment securities, available-for-sale	(111,700)	(137,700)
Purchase investment securities, held to maturity	(83,100)	-
Redemptions of investment securities, available-for-sale	-	30,000
Redemptions of investment securities, held to maturity	55,500	100,800
Capital expenditures	(40,900)	(37,700)
Purchase of intangible assets	(7,600)	-
Net cash used in investing activities	(187,800)	(44,600)
Financing activities, exercise of stock options	2,000	-
Net increase (decrease) in cash and cash equivalents	(85,700)	180,700
Cash and cash equivalents, beginning of year	241,400	107,600
Cash and cash equivalents, end of period	$ 155,700	$ 288,300

Supplemental disclosures:
Cash paid during the period for:

Income Taxes	$ 51,600	$ 200

See notes to unaudited condensed consolidated financial statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY
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-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, 2004. The results for the three and six months ended December 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, amounted to approximately $609,000 and $663,000 for the three month periods ended December 31, 2004 and 2003, respectively, and $1,235,000 and $1,363,000 for the six month periods ended December 31, 2004 and 2003, respectively.

The Company's export sales (principally Europe and Asia) were approximately $435,000 and $405,000 for the three month periods ended December 31, 2004 and 2003, respectively, and $748,000 and $752,000 for the six month periods ended December 31, 2004 and 2003, respectively.

Three of the Company's customers accounted in the aggregate for 49% and 55% of net sales for the three month periods ended December 31, 2004 and 2003, respectively, and 49% and 57% of total net sales for the six month periods ended December 31, 2004 and 2003, respectively.

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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:

	December 31, 2004
Raw Materials	$ 611,600
Work in process	37,300
Finished Goods	45,000
	$ 693,900

4. Earnings per common share:

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

Earnings per common share was computed as follows:

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2004	2003	2004	2003
Net income	$ 60,800	$ 60,700	$119,400	$ 90,700
Weighted average common shares outstanding	976,736	960,541	976,139	960,541
Effect of dilutive securities	76,536	45,279	72,837	37,119
Weighted average dilutive common shares outstanding	1,053,272	1,005,820	1,048,975	997,660
Basic earnings per common share	$ .06	$ .06	$ .12	$ .09
Diluted earnings per				

common share	$ .06	$ .06	$ .11	$ .09

Unexercised employee stock options to purchase 44,000 shares of common stock at $1.92 to $2.40 per share were outstanding as of December 31, 2003, but were not included in the foregoing computation because the exercise price of each option was greater than the average market price of the Company's common stock for the related period.

All options outstanding as of December 31, 2004 were included in the foregoing computation.

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5. Comprehensive Income:

There was no significant difference between net income and comprehensive income for the three and six month periods ended December 31, 2004 and 2003.

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 December 31,		For the Six Month Periods Ended December 31,	
	2004	2003	2004	2003
Net income:				
As reported	$ 60,800	$ 60,700	$119,400	$ 90,700
Pro Forma	60,300	57,600	118,400	87,400
Earnings per common and common equivalent share:				
Basic - as reported	$ .06	$ .06	$ .12	$ .09
Basic - pro forma	$ .06	$ .06	$ .12	$ .09
Diluted - as reported	$ .06	$ .06	$ .11	$ .09
Diluted - pro forma	$ .06	$ .06	$ .11	$ .09

On December 16, 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004) that will require compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be measured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supercedes APB Opinion No. 25, accounting for Stock Issued to Employees. SFAS 123(R) is effective as of the first interim or annual reporting period that begins after December 15, 2005. The Company is currently assessing the impact of adopting SFAS 123(R).

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Certain statements contained in this report are not based on historical facts, but are forward-looking statements that are based upon various assumptions about future conditions. Actual events in the future could differ materially from those described in the forward-looking information. Numerous unknown factors and future events could cause such differences, including but not limited to, product demand, market acceptance, 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 $100,100 for the six month period of the current fiscal year as compared to $225,300 in the comparative period for 2003. The principal factors accounting for the difference were (i) a $57,100 increase in accounts receivable due to higher sales in December 2004 than in December 2003, (ii) $54,700 increase in inventory and (iii) a difference of $110,100 in accrued expenses mainly due to various higher accruals including customer allowances, trade shows, and income taxes in the prior year's six month period. Cash used in investing activities was $187,800 for the current period as compared to $44,600 for the six months ended December 31, 2003 reflecting higher purchases and lower redemptions of investment securities during the current year. The Company does not ordinarily have any significant financing activities other than exercises of incentive stock options. As a result of the foregoing, cash and cash equivalents decreased by $85,700 to $155,700 as of December 31, 2004 from a balance of $241,400 as of June 30, 2004.

On September 21, 2004, the Board of Directors of the Company declared a cash dividend of $.07 per share of Common Stock which was paid on January 14, 2005 to holders of record as of the close of business on October 20, 2004.

The Company's working capital as of December 31, 2004 increased $69,400 to $2,052,700 from $1,983,300 at June 30, 2004. The increase was mainly due to higher income from operations, partially offset by the dividend declared. The Company has available a secured bank line of credit of $200,000 with North Fork Bank with interest at prime, all of which was available as of December 31, 2004. The Company has never borrowed under this line of credit. Management believes that the Company will be able to meet its cash flow needs during the 12 months ended December 31, 2005 from its available financial resources which include its cash and investment securities.

Results of Operations

Financial Overview

Income before income taxes of $78,800 for the three months ended December 31, 2004 was only $1,900 less than $80,700 for the comparable quarter last year, mainly as a result of a slight increase in operating expenses during the quarter. Production interruptions due to problems with a supplier, which were subsequently corrected caused a 3% reduction in net sales for the current quarter from those of the comparable prior year period. The interruption in turn, resulted in a build-up of backlog to $272,000 as of December 31, 2004, which was filled completely in January 2005. Order backlog is normally not a significant factor for the Company due to the nature of its products.

Income before income taxes of $155,400 for the six months ended December 31, 2004 was $29,700 (23.6%) higher than $125,700 for the prior year's six month period, as a result of a reduction in operating expenses principally effected during the first three months of the period. The production interruption as well as lower foreign sales in the first quarter also caused a slight decrease in net sales for the current six month period compared to the year earlier period. The Company continues to feel competitive pressures from the private label brand products offered by its two major distributors and no representation can be made as to the adverse effect, if any, recent acquisitions by and ownership changes in these two customers will have on our future sales.

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

Principally as a result of the production interruptions which was due to a problem suffered by a supplier but, subsequently resolved, net sales for the three months ended December 31, 2004, decreased 2.8% to $845,100 from $869,700 for the three months ended December 31, 2003.

Gross profit margins increased from 46.2% to 48.3% between the two comparable periods resulting in a $7,100 increase in gross profit from $401,500 to $408,600. The higher margin was primarily due to lower indirect labor costs in this year's quarter and higher regulatory testing costs in the prior year's comparable quarter. The production delay, however, resulted in a backlog of $272,000 at the end of the period, which was filled in January 2005. Due to the quick turnaround between receipt of an order and shipment, backlog normally is not a material factor in the Company's operation.

General and administrative expenses for the three months ended December 31, 2004 were only 3.1% higher ($5,000) for the current year's three month period, $167,900 compared to $162,900, reflecting small increases in salaries and other expenses.

Selling expenses for the three months ended December 31, 2004 increased slightly by $2,700 (3.4%) from $78,600 to $81,300 due to purchases of promotional items during the current year's quarter.

Our continued new product development efforts resulted in a 5.6% ($4,700) increase in research and development expenses from $83,800 to $88,500 between the comparable quarters.

As a result of the foregoing, the Company's income before income taxes decreased by only $1,900 to $78,800 for the three months ended December 31, 2004 compared to $80,700 for the three months ended December 31, 2003.

The Six Months Ended December 31, 2004 Compared with the Six Months Ended December 31, 2003.

The 2.7% decrease in net sales from $1,743,600 for the six months ended December 31, 2003 to $1,696,900 for the six months ended December 31, 2004 was due to lower foreign sales in the first quarter of the current fiscal year, and a production interruption resulting from supplier related problems which were subsequently resolved. As a result, our order backlog at the end of the period was high at $272,000, which were filled in January 2005.

Our gross profit margin increased from 46.5% to 47.5% between the comparable six month periods due primarily to lower indirect labor costs during the current six month period and higher regulatory testing costs in the prior year.

General and administrative expenses increased by $18,400 (5.6%) from $327,000 to $345,400 due to increases primarily in salaries and insurance.

Selling expenses decreased by $29,300 (16.4%) from $178,500 to $149,200 between the comparative six month periods, due to less advertising during the current year's six month period. However, advertising activity is expected to increase in the second half of the current fiscal year.

As a result of the significant development work for the new MicroPlate Genie(TM) mixer performed during the first half of last fiscal year, research and development expenses decreased by $16,000

(8.6%) to $170,400 for the six months ended December 31, 2004 from $186,400 for the comparable prior year period.

As a result of the foregoing, the Company's income before income taxes increased by 23.6% to $155,400 for the six months ended December 31, 2004 compared to $125,700 for the six months ended December 31, 2003.

Net income for the first six months of the current fiscal year reflects income tax expense of $36,000, compared to $35,000 in the prior year due to higher expected tax credits in the current year.

Item 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Chief Executive and Chief Financial Officer of the Company 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.

There was no change in the Company's internal controls over financial reporting that occurred during the most reecent fiscal quarter that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

PART II OTHER INFORMATION

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

At the Company's 2004 Annual Meeting of Stockholders held on December 2, 2004, stockholders (i) re-elected as Class B Director: Mr. Joseph I. Kesselman by 559,439 shares "For" and 157,026 shares "Withheld"to serve until the Annual Meeting of Stockholders with respect to the fiscal year ending June 30, 2007, and the due election and qualification of his successor; and (ii) ratified the appointment of Nussbaum Yates & Wolpow P.C. as the independent auditors with respect to the financial statements of the Company for the year ending June 30, 2005 by a vote of 716,139 shares "For", 120 shares "Against", and 206 shares abstaining.

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:
None.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARY

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Scientific Industries, Inc.
Registrant

/s/Helena R. Santos

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

Date: April 20, 2005