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SCIENTIFIC INDUSTRIES INC  
Form 10-Q  
May 14, 2013

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 March 31, 2013

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  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)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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Yes ( X ) No

The number of shares outstanding of the issuer's common stock par value, \$0.05 per share, as of April 26, 2013 was 1,337,663 shares.

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PART I-FINANCIAL INFORMATION  
Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2013	June 30, 2012
Current assets:	(Unaudited)	
Cash and cash equivalents	\$ 946,400	\$ 769,300
Investment securities	729,500	718,300
Trade accounts receivable, net	731,700	623,500
Inventories	2,245,200	1,613,700
Prepaid expenses and other current assets	63,600	167,800
Deferred taxes	72,600	70,200
	-----	-----
Property and equipment, net	161,600	180,500
Intangible assets, net	794,200	877,300
Goodwill	589,900	589,900
Other assets	24,100	25,700
Deferred taxes	114,700	136,000
	-----	-----
Total assets	\$6,473,500	\$5,772,200
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 139,600	\$ 114,800
Customer advances	503,200	98,500
Notes payable, current	77,700	75,800
Accrued expenses and taxes	381,200	237,500
Contingent consideration payable, current	19,000	19,000
	-----	-----
Total current liabilities	1,120,700	545,600
Contingent consideration payable, less current portion	62,500	88,400
Notes payable, less current portion	46,500	105,000
	-----	-----
Total liabilities	1,229,700	739,000
	-----	-----
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,357,465 issued and outstanding at March 31, 2013 and 1,355,514 at June 30, 2012	67,900	67,800
Additional paid-in capital	1,976,200	1,968,700
Accumulated other comprehensive income (loss)	4,200	( 12,600)
Retained earnings	3,247,900	3,061,700

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	-----	-----
	5,296,200	5,085,600
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
	-----	-----
Total shareholders' equity	5,243,800	5,033,200
	-----	-----
Total liabilities and shareholders' equity	\$6,473,500	\$5,772,200
	=====	=====

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 March 31,		For the Nine Month Periods Ended March 31,	
	2013	2012	2013	2012
Net sales	\$1,626,100	\$1,519,500	\$4,854,700	\$4,258,000
Cost of sales	810,700	920,500	2,744,700	2,564,700
	-----	-----	-----	-----
Gross profit	815,400	599,000	2,110,000	1,693,300
	-----	-----	-----	-----
Operating expenses:				
General & administrative	320,800	318,900	910,000	945,000
Selling	188,600	170,800	536,000	519,800
Research & development	100,800	125,000	356,000	250,500
	-----	-----	-----	-----
Total operating expenses	610,200	614,700	1,802,000	1,715,300
	-----	-----	-----	-----
Income (loss) from operations	205,200	( 15,700)	308,000	( 22,000)
	-----	-----	-----	-----
Other income (expense):				
Investment income	5,700	2,900	11,600	10,000
Other	600	3,100	1,500	9,000
Interest expense	( 1,100)	( 1,700)	( 3,800)	( 2,900)
	-----	-----	-----	-----
Total other income	5,200	4,300	9,300	16,100
	-----	-----	-----	-----
Income (loss) before income taxes (benefit)	210,400	( 11,400)	317,300	( 5,900)
	-----	-----	-----	-----
Income tax expense (benefit):				
Current	53,600	( 2,900)	74,800	( 3,400)
Deferred	6,700	( 300)	16,200	1,700
	-----	-----	-----	-----
Total income (loss) tax				

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expense (benefit)	60,300	( 3,200)	91,000	( 1,700)
	-----	-----	-----	-----
Net income (loss)	\$ 150,100	(\$ 8,200)	\$ 226,300	(\$ 4,200)
	=====	=====	=====	=====
Basic earnings (loss) per common share	\$ .11	\$ (.01)	\$ .17	\$ .00
Diluted earnings (loss) per common share	\$ .11	\$ (.01)	\$ .17	\$ .00
Cash dividends declared per common share	\$ .00	\$ .00	\$ .03	\$ .05

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 March 31,		For the Nine Month Periods Ended March 31,	
	2013	2012	2013	2012
Net income (loss)	\$ 150,100	(\$ 8,200)	\$ 226,300	(\$ 4,200)
Other comprehensive income:				
Unrealized holding gain arising during period, net of tax	3,900	7,500	16,800	8,900
	-----	-----	-----	-----
Comprehensive income (loss)	\$ 154,000	(\$ 700)	\$ 243,100	\$ 4,700
	=====	=====	=====	=====

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 Nine Month Periods Ended

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	March 31, 2013	March 31, 2012
Operating activities:		
Net income (loss)	\$ 226,300	(\$ 4,200)
	-----	-----
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss on sale of investments	7,400	-
Depreciation and amortization	132,400	141,600
Deferred income tax benefit	16,200	1,700
Stock-based compensation	7,600	5,700
Changes in operating assets and liabilities:		
Accounts receivable	( 108,200)	51,000
Inventories	( 631,500)	( 492,600)
Prepaid expenses and other current assets	104,200	41,000
Accounts payable	24,800	23,500
Customer advances	404,700	307,100
Accrued expenses and taxes	143,700	5,900
Other assets	1,600	-
	-----	-----
Total adjustments	102,900	84,900
	-----	-----
Net cash provided by operating activities	329,200	80,700
	-----	-----
Investing activities:		
Intangible assets acquired in acquisition of SBI	-	( 260,000)
Redemption of investment securities, available-for-sale	717,600	-
Purchase of investment securities, available-for-sale	( 716,900)	( 8,300)
Capital expenditures	( 28,100)	( 66,100)
Purchase of other intangible assets	( 2,100)	( 4,900)
	-----	-----
Net cash used in investing activities	( 29,500)	( 339,300)
	-----	-----
Financing activities:		
Line of credit proceeds	-	60,000
Line of credit repayments	-	( 60,000)
Payments of contingent consideration	( 25,900)	( 16,100)
Proceeds from exercise of stock options	-	9,600
Cash dividend declared and paid	( 40,100)	( 59,900)
Principal payments on note payable	( 56,600)	( 30,600)
	-----	-----
Net cash used in financing activities	( 122,600)	( 97,000)
	-----	-----
Net increase (decrease) in cash and cash equivalents	177,100	( 355,600)
Cash and cash equivalents, beginning of year	769,300	907,800
	-----	-----
Cash and cash equivalents, end of period	\$ 946,400	\$ 552,200
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	\$ -	\$ 3,300
Interest	3,800	2,900

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, 2012. The results for the three and nine months ended March 31, 2013, are not necessarily an indication of the results for the full fiscal year ending June 30, 2013.

#### 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 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 February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220)-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 became effective for the Company for this reporting period, however the adoption of ASU 2013-02 did not have an impact on the reporting of the Company's financial statements.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"), which allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying

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value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test. Otherwise, the quantitative impairment test is not required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of the provisions of ASU 2012-02 is not expected to have a material impact on the Company's financial position or results of operations.

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### 3. Acquisition:

On November 14, 2011, the Company through SBI acquired substantially all of the assets of a privately owned company consisting principally of a license and sublicenses under patents held by the University of Maryland, Baltimore County ("UMBC") with respect to the design, development and production of bioprocessing methods, systems and products. The acquisition was pursuant to an asset purchase agreement ("APA") whereby the Company paid to the seller \$260,000 in cash, issued 135,135 shares of common stock valued at \$400,000, issued to UMBC a \$230,000 36-month note payable, and agreed to make additional cash payments equal to 30% of net royalties received under the acquired license and sublicenses, estimated at a present value of \$128,000 on the date of acquisition.

SBI's revenues are derived from royalties received by SBI under the various sublicense agreements, net of royalty payments due to UMBC, and revenues from sales of certain products being developed under its existing license. University, government, and industrial laboratories working primarily in the biotechnology industry worldwide are its targeted customers. Management of the Company allocated the purchase price based on its valuation of the assets acquired, all of which are intangible, as follows:

Technology, trademarks, and in-process research & development ("IPR&D")	\$ 500,000
Sublicense agreements	294,000
Engineering drawings and software	64,000
Non-competition agreements	18,000
Goodwill*	142,000
	-----
Total Purchase Price	\$1,018,000
	=====

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

The amounts allocated to Technology, Trademarks, and IPR&D and Sublicense Agreements are deemed to have a useful life of 10 years, and to the remaining intangible assets to have a useful life of 5 years, all of which are being amortized on a straight-line basis, except for goodwill.

In connection with the acquisition, SBI entered into a research and development agreement providing for the seller to perform services with respect to the research and development of bioprocessing methods, systems, and products pursuant to programs set forth in the Agreement at a fee of \$14,000 per month with SBI to bear all related expenses. The agreement is for a two-year term with SBI having three one-year extension options.



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SBI has the right to terminate the agreement in the event of a failure to achieve the designated product development terms set forth in the agreement.

In May 2013, the Company was advised of the death of Dr. Joseph Qualitz, the Chief Operating Officer of the seller. Pursuant to the research and development agreement, the Company has the option to terminate the agreement effective immediately unless the Company consents to a replacement who has the skills, education, experience and capabilities similar to those of Dr. Qualitz. No assurance can be given that such replacement will be made. The Company believes that a termination will not be materially adverse to the Company's operations or financial condition as the research and development services can be performed by its staff, or if needed, through qualified subcontractors at no additional material increase in cost from that to be incurred if the research agreement was not terminated.

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### Pro forma results

The unaudited pro forma condensed consolidated financial information in the table below summarizes the consolidated results of operations of the Company on a pro forma basis, as though SBI had been consolidated as of July 1, 2011 (the beginning of the prior periods presented). 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 period presented.

	For the Nine Month Period Ended March 31,
	<u>2012</u>
Net sales	\$4,333,000
Net income (loss)	(\$ 12,900)
Net income (loss) per share - basic	(\$ .01)
Net income (loss) per share - diluted	(\$ .01)

#### 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").

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Segment information is reported as follows:

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bioprocessing Systems	Corporate and Other	Consolidated
Three months ended March 31, 2013:					
Net Sales	\$1,229,800	\$ 360,600	\$ 35,700	\$ -	\$1,626,100
Foreign Sales	645,300	107,300	-	-	752,600
Profit (Loss)	243,300	3,600	( 41,700)	-	205,200
Assets	2,719,500	1,932,600	904,600	916,800	6,473,500
Long-Lived Asset Expenditures	1,700	1,200	-	-	2,900
Depreciation and Amortization	10,700	8,700	24,000	-	43,400

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bioprocessing Systems	Corporate and Other	Consolidated
Three months ended March 31, 2012:					
Net Sales	\$1,025,300	\$ 418,300	\$ 75,900	\$ -	\$1,519,500
Foreign Sales	613,900	405,900	3,600	-	1,023,400
Profit (Loss)	80,700	( 76,000)	( 16,300)	( 4,100)	( 15,700)
Assets	2,446,300	1,239,700	842,700	1,492,500	6,021,200
Long-Lived Asset Expenditures	7,500	-	-	-	7,500
Depreciation and Amortization	12,500	5,900	24,000	-	42,400

Approximately 71% and 62% of net sales of benchtop laboratory equipment for the three month periods ended March 31, 2013 and 2012, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Two benchtop laboratory equipment customers accounted for approximately 27% of the segment's net sales for each of the three month periods ended March 31, 2013 and 2012 (20% and 18% of total net sales, respectively, for the periods).

Sales of catalyst research instruments are generally pursuant to large orders averaging more than \$100,000 per order to a limited numbers of customers. Sales to three customers in the three months ended March 31, 2013 and two different customers in the three months ended March 31, 2012, accounted respectively for 92% of the segment's net sales for each of the periods (20% and 25% of total net sales for the respective periods).

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	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bioprocessing Systems	Corporate and Other	Consolidated
Nine months ended March 31, 2013:					
Net Sales	\$3,459,500	\$1,309,700	\$ 85,500	\$ -	\$4,854,700
Foreign Sales	2,014,900	626,400	-	-	2,641,300
Profit (Loss)	518,100	( 62,500)	( 147,600)	-	308,000
Assets	2,719,500	1,932,600	904,600	916,800	6,473,500
Long-Lived Asset Expenditures	10,900	19,300	-	-	30,200
Depreciation and Amortization	33,300	27,200	71,900	-	132,400

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bioprocessing Systems	Corporate and Other	Consolidated
Nine months ended March 31, 2012:					
Net Sales	\$3,208,900	\$ 973,200	\$ 75,900	\$ -	\$4,258,000
Foreign Sales	1,977,700	527,000	3,600	-	2,508,300
Profit (Loss)	341,300	( 252,400)	( 48,600)	( 62,300)	( 22,000)
Assets	2,446,300	1,239,700	842,700	1,492,500	6,021,200
Long-Lived Asset Expenditures	21,500	49,500	876,000	-	947,000
Depreciation and Amortization	36,700	68,900	36,000	-	141,600

Approximately 69% and 63% of net sales of benchtop laboratory equipment for the nine month periods ended March 31, 2013 and 2012, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Two benchtop laboratory equipment customers, accounted for approximately 24% and 26% of the segment's net sales (17% and 24% of total net sales) for the nine month periods ended March 31, 2013 and 2012, respectively.

Sales of catalyst research instruments to three customers in the nine months ended March 31, 2013 and to three other customers in the nine months ended March 31, 2012 accounted for approximately 49% and 65% of that segment's net sales (13% and 15% of total net sales) for the respective nine month periods.

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

5. 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 concerning 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 valuations 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 and liabilities that were accounted for at fair value on a recurring basis at March 31, 2013 and June 30, 2012 according to the valuation techniques the Company used to determine their fair values:

Fair Value Measurements Using Inputs  
Considered as

Assets:

	Fair Value at March 31, 2013	Level 1	Level 2	Level 3
	_____	_____	_____	_____
Cash and cash equivalents	\$ 946,400	\$ 946,400	\$ -	\$ -
Available for sale securities	729,500	729,500	-	-
Total	<u>\$1,675,900</u>	<u>\$1,675,900</u>	<u>\$ -</u>	<u>\$ -</u>
	=====	=====	=====	=====

Liabilities:

Contingent consideration	\$ 81,500	\$ -	\$ -	\$ 81,500
	=====	=====	=====	=====

Fair Value Measurements Using Inputs  
Considered as

Assets:

	Fair Value at June 30, 2012	Level 1	Level 2	Level 3
	_____	_____	_____	_____
Cash and cash equivalents	\$ 769,300	\$ 769,300	\$ -	\$ -

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Available for sale securities	718,300	718,300	-	-
Total	<u>\$1,487,600</u>	<u>\$1,487,600</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Contingent consideration	<u>\$ 107,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$107,400</u>

Investments in marketable securities classified as available-for-sale by security type at March 31, 2013 and June 30, 2012 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At March 31, 2013:			
Available for sale:			
Equity securities	\$ 29,300	\$ 31,800	\$ 2,500
Mutual funds	696,000	697,700	1,700
	<u>\$ 725,300</u>	<u>\$ 729,500</u>	<u>\$ 4,200</u>
	=====	=====	=====

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	Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2012:			
Available for sale:			
Equity securities	\$ 5,900	\$ 16,000	\$ 10,100
Mutual funds	725,000	702,300	(22,700)
	<u>\$ 730,900</u>	<u>\$ 718,300</u>	<u>\$ (12,600)</u>
	=====	=====	=====

6. Inventories:

At interim reporting periods, inventories for financial statement purposes are based on perpetual inventory records. Components of inventory are as follows:

	March 31, 2013	June 30, 2012
Raw Materials	<u>\$1,329,700</u>	<u>\$1,146,800</u>
Work in process	762,000	221,900
Finished Goods	153,500	245,000
	<u>\$2,245,200</u>	<u>\$1,613,700</u>
	=====	=====

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### 7. Earnings (Loss) per common share:

Basic earnings (losses) 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 (Loss) per common share was computed as follows:

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2013	2012	2013	2012
Net income (loss)	\$ 150,100	(\$ 8,200)	\$ 226,300	(\$ 4,200)
Weighted average common shares outstanding	1,337,663	1,335,712	1,336,844	1,265,714
Effect of dilutive securities	4,701	-	4,543	-
Weighted average dilutive common shares outstanding	1,342,364	1,335,712	1,341,387	1,265,714
Basic earnings (loss) per common share	\$ .11	(\$ .01)	\$ .17	(\$ .00)
Diluted earnings (loss) per common share	\$ .11	(\$ .01)	\$ .17	(\$ .00)

Approximately 40,000 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 each of the three and nine month periods ended March 31, 2013, because the effect would be anti-dilutive.

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Approximately 55,000 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted loss per common share, for the three and nine month periods ended March 31, 2012, respectively, because the effect would be anti-dilutive due to the losses for the periods.

### 8. Goodwill and Other Intangible Assets:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisition of Altamira and SBI's acquisition of assets. Goodwill amounted to \$589,900 as of March 31, 2013 and June 30, 2012, respectively, all of which is deductible for tax purposes.

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The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At March 31, 2013:				
Technology, trademarks	5/10 yrs.	\$ 864,000	\$ 386,300	\$ 477,700
Customer relationships	10 yrs.	237,000	200,800	36,200
Sublicense agreements	10 yrs.	294,000	40,400	253,600
Non-compete agreements	5 yrs.	120,000	107,000	13,000
Other intangible assets	5 yrs.	146,000	132,300	13,700
		\$1,661,000	\$ 866,800	\$ 794,200
		=====	=====	=====

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2012:				
Technology, trademarks	5/10 yrs.	\$ 864,000	\$ 339,300	\$ 524,700
Customer relationships	10 yrs.	237,000	192,100	44,900
Sublicense agreements	10 yrs.	294,000	18,400	275,600
Non-compete agreements	5 yrs.	120,000	104,300	15,700
Other intangible assets	5 yrs.	143,900	127,500	16,400
		\$1,658,900	\$ 781,600	\$ 877,300
		=====	=====	=====

Total amortization expense was \$27,900 and \$26,300 for the three months ended March 31, 2013 and 2012, respectively and \$85,200 and \$87,600 for the nine months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, estimated future amortization expense related to intangible assets is \$29,000 for the remainder of the fiscal year ending June 30, 2013, \$108,800 for fiscal 2014, \$105,200 for fiscal 2015, \$109,400 for fiscal 2016, \$93,800 for fiscal 2017, and \$348,000 thereafter.

### 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

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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 catalyst research instruments to customers' satisfaction, 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 \$177,100 to \$946,400 as of March 31, 2013 from \$769,300 as of June 30, 2012.

Operating activities provided cash of \$329,200 for the nine month period ended March 31, 2013 as compared to \$80,700 for the nine month period ended March 31, 2012, due mainly to higher income in the 2013 period. Cash used in investing activities decreased to \$29,500 for the nine month period ended March 31, 2013 compared to a decrease of \$339,300 for the nine month period ended March 31, 2012 primarily due to the acquisition by SBI of intangible assets in the earlier period. Cash used in financing activities was \$122,600 for the nine month period ended March 31, 2013 compared to \$97,000 for the nine month period ended March 31, 2012, due primarily to the Note and contingent consideration payments made in connection with the acquisition by SBI of intangible assets.

On September 21, 2012, the Board of Directors of the Company declared a cash dividend of \$.03 per share of Common Stock payable on November 1, 2012 to holders of record as of the close of business on October 1, 2012 as compared to \$.05 per share paid in the prior fiscal year period.

The Company's working capital increased by \$251,100 to \$3,668,300 as of March 31, 2013 from \$3,417,200 at June 30, 2012 mainly due to the income for the 2013 period.

The Company has a line of credit with its bank, JPMorgan Chase Bank, N.A. which provides for maximum borrowings of up to \$700,000, bearing interest at 3.08 percentage points above a defined LIBOR Index. The interest rate as of March 31, 2013 was approximately 3.28% and any borrowing is to be secured by a pledge of collateral consisting of the inventory, accounts, chattel paper, equipment and general intangibles of the Company. Outstanding amounts are due and payable by June 13, 2013 with a requirement that the Company is to reduce the outstanding principal balance to zero during the 30 day period ending on the anniversary date of the promissory note. As of March 31, 2013 and June 30, 2012, no borrowings under the line were outstanding.

Management believes that the Company will be able to meet its cash flow needs for the 12 months ended March 31, 2014 from its available



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financial resources, including its cash and cash equivalents, the line of credit and investment securities.

### Results of Operations:

#### Financial Overview

The Company recorded income before income taxes of \$210,400 for the three month period ended March 31 2013 compared to a loss of (\$11,400) before income tax benefit for the comparative period last year, primarily as a result of the increased income for the Benchtop Laboratory Operations and income of \$3,600 for the 2013 period as compared to (\$76,000) loss for the year earlier period for the Catalyst Research Instruments Operations. For the comparative nine month period ended March 31, 2013, the Company reflected income before income taxes of \$317,300 compared to a loss before income tax benefit of (\$5,900) for the comparable 2012 period, also principally due to the higher income generated by the Benchtop Laboratory Equipment Operations, and a material reduction in the operating loss for the Catalyst Research Instrument Operations, partially offset by the increase in loss for the Bioprocessing Systems Operations.

#### The Three Months Ended March 31, 2013 Compared With the Three Months Ended March 31, 2012

Net sales for the three months ended March 31, 2013 increased by \$106,600 (7.0%) to \$1,626,100 from \$1,519,500 for the three months ended March 31, 2012 as a result of a \$204,500 increase in benchtop laboratory product sales, partially offset by decreases of \$57,700 and \$40,200 in catalyst research instrument sales and bioprocessing systems revenues, respectively. Sales of benchtop laboratory equipment products generally comprise many small orders from distributors, while catalyst research instruments are sold pursuant to a small number of larger orders, typically averaging over \$100,000 each, resulting in significant swings in revenues. The backlog of orders for catalyst research instruments was \$1,340,000 as of March 31, 2013, most of which is expected to be delivered by fiscal year end, as compared to the backlog of \$850,000 as of March 31, 2012.

The gross profit for the three months ended March 31, 2013 was 50.1% compared to 39.4% for the three months ended March 31, 2012, primarily as a result of more profitable orders for the Catalyst Research Instrument Operations.

General and administrative expenses for the three months ended March 31, 2013 increased slightly to \$320,800 compared to \$318,900 for the three months ended March 31, 2012.

Selling expenses for the three months ended March 31, 2013 increased \$17,800 (10.4%) to \$188,600 from \$170,800 for the three months ended March 31, 2012, primarily the result of commissions paid with respect to catalyst research instrument sales.

Research and development expenses for the three months ended March 31, 2013 decreased by \$24,200 (19.4%) to \$100,800 from \$125,000 for the three months ended March 31, 2012, primarily the result of a reduction of new product development activity by the Benchtop Laboratory Equipment Operations.

Total other income amounted to \$5,200 for the three months ended March 31, 2013 compared to \$4,300 for the prior year period.

The Company recorded income tax expense of \$60,300 for the three months ended March 31, 2013 compared to an income tax benefit of \$3,200 for the three months ended March 31, 2012 due to the profits in the current year period.

As a result of the foregoing, net income was \$150,100 for the three months ended March 31, 2013, compared to a net loss of (\$8,200) for the three months ended March 31, 2012.

Nine Months Ended March 31, 2013 Compared With the Nine Months Ended March 31, 2012

Net sales increased by \$596,700 (14.0%) to \$4,854,700 for the nine months ended March 31, 2013 compared to \$4,258,000 for the nine months ended March 31, 2012, due to increases of \$336,500 in catalyst research instrument sales and \$250,600 in benchtop laboratory equipment sales, and an increase of \$9,600 in bioprocessing systems revenues. Sales of benchtop laboratory equipment products generally are comprised of many small purchase orders from distributors, while sales of catalyst research instruments are comprised of a small number of large orders, typically averaging over \$100,000 each, resulting in significant swings in revenues. The backlog of orders for catalyst research instruments was \$1,340,000 as of March 31, 2013, most of which is anticipated to be delivered by fiscal year end, as compared with \$850,000 as of March 31, 2012.

The gross profit percentage for the nine months ended March 31, 2013 was 43.5% as compared with 39.8% for the prior year nine month period mostly due to the more profitable orders for Catalyst Research Instruments and lower overhead costs for the Benchtop Laboratory Equipment Operations.

General and administrative expenses decreased by \$35,000 (3.7%) to \$910,000 for the nine months ended March 31, 2013 from \$945,000 for the comparable period last year, because of the incurrence in the earlier period of costs related to the asset acquisition by SBI.

Selling expenses for the nine months ended March 31, 2013 increased by \$16,200 (3.1%) to \$536,000 compared to \$519,800 for the nine months ended March 31, 2012, due to higher sales commissions incurred by the Catalyst Research Instruments Operations.

Research and development expenses for the nine months ended March 31, 2013 increased by \$105,500 (42.1%) to \$356,000 from \$250,500 for the nine months ended March 31, 2012, due to increased new product development activity by the Benchtop Laboratory Equipment Operations and the Bioprocessing Systems Operations.

Total other income decreased by \$6,800 to \$9,300 from \$16,100 for the nine month comparative periods ended March 31, 2013 and 2012.

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Income tax expense for the nine months ended March 31, 2013 was \$91,000 compared to an income tax benefit of \$1,700 for the nine months ended March 31, 2012 due to the profits generated for the current year period.

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As a result of the foregoing, net income for the nine months ended March 31, 2013 was \$226,300 compared to a net loss of \$4,200 for the nine months ended March 31, 2012.

### 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 B 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:

None.

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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

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

Date: May 14, 2013

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