SCIENCE DYNAMICS CORP
Form 10QSB
August 23, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended June 30, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ______________ to ______________

Commission file number 000-010690

Science Dynamics Corporation
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

22-2011859
(IRS Employer Identification No.)

7150 N. Park Dr., Suite 500, Pennsauken, New Jersey 08109
(Address of principal executive offices)

(856) 910-1166
(Issuer's telephone number)

N/A
(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 [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

08/20/2004 45,900,534 shares of common stock were outstanding.

Transitional Small Business Disclosure Format (Check One): Yes [ ] No [x]

S C I E N C E D Y N A M I C S C O R P O R A T I O N

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2004 Unaudited	December 31, 2003 Audited
Current assets:		
Cash and cash equivalents	$ 78,483	$ 74,250
Accounts receivable - trade	531,553	447,060
Inventories	133,346	181,119
Other current assets	2,842	2,812
Total current assets	746,224	705,241
Property and equipment, net	140,063	209,654
Deferred Asset	21,955	66,847
Other assets	2,812	2,812
Goodwill (Note 3)	-	250,498
Total assets	$ 911,054	$1,235,052
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Short term payable	$ 261,860	$ 111,860
Customer deposits	191,290	137,004
Deferred Income	44,377	35,404
SBA Loan	50,000	50,000
Revolving Credit Line	227,998	336,309
Loan payable stockholders	163,192	163,192
Accounts payable	1,328,518	1,488,690
Accrued expenses	550,908	443,474
Convertible Debenture (See Note 2)	1,198,362	1,198,362
Subscribed Stock Payable	-0-	200,000
Total current liabilities	4,016,505	4,164,295
Long Term liabilities:		
Long Term Debt	332,963	428,828
Non current portion of bank Note	-	-
Total liabilities	4,349,468	4,593,123
Shareholders' equity - (Deficit)		
Preferred stock - .01 par value 10,000,000 shares authorized No shares issued	-	-
Common stock - .01 par value, 200,000,000 and 45,000,000 shares authorized, 45,850,553 and 41,554,454 issued 45,724,733 and 41,428,654 outstanding in 2004 and 2003 respectively.	458,505	415,545

Additional paid-in capital	15,783,608	15,593,569
Reserve for stock compensation	160,909	160,909
(Deficit)	(19,443,604)	(19,130,261)
	----------	---------
	(3,040,582)	(2,960, 238)
Common stock held in treasury, at cost	(397,833)	(397,833)
	----------	---------
Total shareholders' equity (Deficit)	(3,438,415)	(3,358,071)
Total liabilities and shareholders' Equity	$ 911,053	$ 1,235,052
	==========	=========

The accompanying notes are an integral part of these consolidated financial statements.

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SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Six Months Ended June 30,		Three Months En June 30,	
	2004	2003	2004	
	----	----	----	
S>				
NET SALES	$ 2,581,451	$ 1,774,885	$1,047,176	$1,2
Operating costs and expenses:				
Cost of sales	984,697	770,590	409,086	6
Research and development	153,423	213,593	81,918	
Selling, general And administrative	1,450,687	1,335,143	728,619	9
	---------	---------	---------	---
	2,588,807	2,319,326	1,219,623	1,7
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Goodwill impairment (See Note 3)	250,498	-	250,498	
Operating Income (Loss) before other income (expenses)	(257,854)	(544,441)	(422,945)	(4
Other income (expenses):				
Sale of Intangable Asset	60,000	-	60,000	
Other Income	4,809	1,720	2,665	
Interest Expense	(75,407)	(63,845)	(30,654)	(

Finance Expense	(44,891)	(80,988)	(22,413)	(
Net Income (Loss)	(313,343)	(687,554)	(413,347)	(5
Net Income (loss) per common share Basic	$ (0.01)	(0.02)	$ (0.01)	
Weighted average shares outstanding Basic	45,612,134	34,485,986	45,669,814	34,4

The accompanying notes are an integral part of these consolidated financial statements.

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended June 30 2004	2003
Cash flows from operating activities:		
Net (loss)	$ (313,343)	$ (687,553)
Adjustments to reconcile net (loss) to net cash provided by (used for) operating activities:		
Depreciation	69,592	171,663
Interest expense non cash	-	63,845
Financing expense non cash	44,891	80,988
Other non Cash items	2,998	-
Changes in operating assets and liabilities:		
Write-off Good will	250,498	-
(Increase) decrease in:		
Accounts receivable	(84,492)	(663,396)
Inventories	47,773	(31,626)
Other current assets	30	(23,963)
Other assets	-	17,370
Increase (decrease) in:		
Accounts Payable and	(160,172)	-
accrued expenses	107,434	708,439
Short term payable	(15,865)	3,447
Deferred Income	8,973	29,836
Customer Deposits	54,286	(199,119)
Total adjustments	325,887	157,484

Net cash provided by (used for) operating activities	12,544	(530,069)
Cash flows from investing activities:		
Purchase of property and equipment - net	-	-
Net cash (used) in investing activities	-	-
Cash flows from financing activities:		
Increase (decrease) in		
Subscribed Stock	-	200,000
Issuance of Convertible Debt	-	217,000
Short term notes	150,000	-
Line of Credit	-	-
Capitalized Lease	(50,000)	-
Net borrowing on Revolving AR credit facility	(108,311)	203,500
Net cash (used in) provided by financing activities	(8,311)	620,500
Net increase (decrease) in cash and cash equivalents	4,233	90,431
Cash and cash equivalents - beginning of period	74,250	43,141
Cash and cash equivalents - end of period	$ 78,483	$ 133,572

The accompanying notes are an integral part of these consolidated financial statements.

SCIENCE DYNAMICS CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Operations and Summary of Significant Accounting Policies

Basis of Presentation

The unaudited financial statements included in the Form 10-QSB have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation SB. The financial information furnished herein reflects all adjustments, which in the opinion of management are necessary for a fair presentation of the Company's financial position, the results of operations and the cash flows for the periods presented.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed, or omitted, pursuant to such rules and regulations.

These interim statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003. The Company presumes that users of the interim financial information herein have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The results of operations for any interim period are not necessarily indicative of the results for the full year.

Description of Business

Science Dynamics Corporation (the "Company, "SciDyn" or "Science Dynamics") was incorporated in the State of Delaware in May 1973 and commenced operations in July 1977. The Company has been developing and delivering technologically advanced telecommunication solutions for over thirty years.

The Inmate Telephony business continues to provide revenue for the Company, we have been rebuilding the business by partnering with many other organizations and providing them with custom solutions accented toward their individual requirements. Science Dynamics still regards itself as a market leader in this business and is one of a few companies in this area with applicable patented technology.

As a result of these efforts, on December 22, 2003, Evercom Systems, Inc. (Evercom) and Science Dynamic executed a series of agreements which provide, among other things, that Science Dynamics will assist Evercom in accelerating its development of a next generation IP based inmate telephony system. In concert with this development effort, Science Dynamics has sold to Evercom certain Intellectual Property that relates to technology known as "voice over Internet protocol". As a condition of the purchase and consulting agreements, Science Dynamics will receive a perpetual, royalty-free, non-exclusive license to use the technology primarily developed by Science Dynamics during this contract term with the condition that Science Dynamics may only exploit such technology outside of the law enforcement market place. Under this contract,Science Dynamics' engineering resources will be required for the development of the new platform, design and consultancy services for the next four years.

Use of Estimates

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in the financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to impairment of goodwill and equity investments, revenue recognition, recoverability of inventory and receivables, the useful lives of long lived assets such as property and equipment, the future realization of deferred income tax benefits and the recording of various accruals. The ultimate outcome and actual results could differ from the estimates and assumptions used.

Segment Reporting

Management views its business in two divisions, the software engineering division and the audiovisual division.

	Six Months Ended June 30, 2004	Three Months Ended June 30, 2003
Revenue		
Audio Visual Division	$ 1,442,245	$1,076,067
Software Technology Division	1,139,206	698,818
Total Consolidated Revenue	$ 2,581,451	$1,774,885
Net Income (loss)		
Audio Visual Division	$ (448,048)	$ 114,099
Software Technology Division	134,705	573,454
Total Consolidated Net Loss	$ (313,343)	$ 687,554
Assets		
Audio Visual Division	$ 47,736	$1,330,044
Software Technology Division	863,318	780,762
Total Consolidated Assets	$ 911,054	$2,110,806

Note 2 Convertible Notes Payable

In June 2004 the Company was unable to meet the present payment terms of its convertible notes. The Company has obtained an amendment to the Credit Facility (Waiver), which cures the payment violation and extends the terms until September 30, 2004.

Note 3 Goodwill

We evaluate our long-term assets to be held and used for impairment when events or changes in economic circumstances indicate the carrying amount of such assets may not be recoverable. Goodwill is evaluated at least annually for impairment. We use an estimate of the future net cash flows of the related asset to measure whether the assets are recoverable and measure any impairment by reference to fair value. Fair value is generally estimated using the Company's expectation of discounted net cash flows. In June 2004 the Company recorded an impairment charge of $250,498.

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Note 4 Acquisition

In June 2004, the Company was notified by the seller of Modern Mass Media, that they were in default of the Purchase agreement. The Company was given until June 30, 2004 to rectify the default. On August 23, 2004 the reached an agreement with Chip Del Coro the seller of Modern Mass Media to execute a 30 day demand note in the amount of 132,000 as satisfaction of the default.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Forward Looking Statements

The Company is making this statement in order to satisfy the "safe harbor" provisions contained in the Private Securities Litigation Reform Act of 1995.

This Form 10-QSB includes forward-looking statements relating to the business of SciDyn. Forward-looking statements contained herein or in other statements made by SciDyn are made based on management's expectations and beliefs concerning future events impacting SciDyn and are subject to uncertainties and factors relating to the Company's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed in or implied by forward-looking statements. The Company believes that the following factors, among others, could affect its future performance and cause actual results of the Company to differ materially from those expressed in or implied by forward-looking statements made by or on behalf of the Company: (a) the effect of technological changes; (b) increases in or unexpected losses; (c) increased competition; (d) fluctuations in the costs to operate the business; (e) uninsurable risks; and (f) general economic conditions.

Business Overview

During the second quarter of 2004 the company continued its plans to increase profitability and secure long-term growth of its core technology business. The Software division continues to produce a net profit while the Audio Visual division produced losses. The company's focus on developing its core software business is showing increased interest from its customers as evidenced by the increasing revenue and profitability. The company is continually looking to improved results through development of profitable sales from our core technology and stringent cost controls.

While the software division currently continues to generate the majority of revenue from the Commander product line, there is an increasing demand for those products utilizing VoIP technology. The company is focused on these higher margin products and services, leveraging our expertise and technology to address the growing demand for enhanced capability in this area.

The Company is highly motivated to strengthen and grow our technology activities. The company will strive to minimize its exposure to low margin business and divest itself of unprofitable and unsustainable assets.

The company is implementing its plans to grow its technology business activates, both by organic and acquisitive means, it believes that this is the best strategy to ensure top line growth that maintains sustainable high margins and in turn increases bottom line profitability.

The company has determined that is now prudent to write-off certain "goodwill" and depreciating assets.

Products

The company's products continue to expand and develop in the communication and technology sectors with major emphasis on new IP, Internet, intranet and telephony solutions building on its well-founded expertise in Internet Protocol telephony. The Company has concentrated its future in the "Converged Communications" arena. IP Telephony is now an established, accepted and respected voice medium, with users demanding the deployment of many services and functions that this technology promises. The Company's focus is on developing and deploying these services and functions on its Intelligent Peripheral products built on its highly successful and adaptable "BubbleLINK(R)", this technology architecture is now being developed to facilitate demanding applications on the next generation VoIP Media Servers and Application Servers. This move will reduce the company's dependence on hardware suppliers, increasing the acceptance and potential marketplace for our software products. The Company's many years of experience working with the Regional Bell Operating Companies (RBOC's) has brought it the capability to integrate security, process, reliability and control together with complex billing methodologies to its product set. This experience is now being put to good use providing security, management and billing to converged IP communications.

Science Dynamics regards itself as a market leader in this business and is one of a few companies in this area with applicable patented technology. To maximize revenue potential, the Company made the decision to license its technology and take on custom development projects for other organizations. Science Dynamics is now entering a phase where the Company will be actively developing new relationships for the deployment of its IP based technology across many other business sectors. The Company has undertaken to meet its goals in the deployment of its IP technology not only through the sale of equipment but also through partnering with others in the development of new and innovative systems for specific vertical markets such as the current development contract with Evercom Systems Inc.

Our success depends upon effective cash management. The Company believes it has made significant progress in lowering its Selling General & Administrative and Research & Development expenses. We continue to drive down costs and take decisive steps to restructure the Company's business. At June 30, 2004 we had a total of thirty employees. We intend to continue to increase the scope of our operations while facing the challenge of maximizing resources effectively.

With the advent of the industry's renewed demand for VoIP technology and the Company's underlying strength in this area, the Company believes it is well positioned to take advantage of this market opportunity. In order to effectively capitalize on this opportunity, the Company is continually evaluating different alternatives for raising the additional capital required to execute these strategies.

RESULTS OF OPERATIONS

The following table summarizes the basic results of operations for the periods indicated in the Consolidated Statement of Operations.

Six Months ended June 30, 2004 (unaudited) compared to the Six Months ended June 30, 2003 (unaudited).

	Six Months Ended June 30, 2004	2003
Sales	2,581,451	1,774,885
Net Income (Loss)	(313,343)	(687,554)
Net Income (Loss) Per Share	$(0.01)	$ (0.02)

	OPERATING EXPENSES Six Months Ended June 30, 2004	2003	PERCENT OF SALES 2004	2003
Cost of Goods Sold	984,697	770,590	38.1%	43.4%
Research & Development	153,423	213,593	5.9%	12.0%
Sales, General & Admin.	1,381,095	1,163,480	53.5%	65.6%
Depreciation	69,592	171,663	2.7%	9.7%
Total Operating Costs and Expenses	2,588,807	2,319,326	100.0%	130.7%

Sales for the six months ended June 30, 2004 were $2,581,451, an increase of $806,566 from sales of $1,774,885 for the six months ended June 30, 2003. Sales of $1,442,245 were derived from our audiovisual division, $1,139,206 were from software technology. The software technology division in the six months ended June 30, 2004 was predominantly derived from two products: the MinuteMan Calling Platform and the Commander Product Line.

Cost of Goods Sold increased to $984,697 in the six months ended June 30, 2004 from $770,590 in the corresponding six months ended June 30, 2003. Costs of $795,177 were derived from the audiovisual division and $189,520 were derived from the software technology division. The cost of sales in the audiovisual division are substantially higher than those for the software technology. The audiovisual division is dependent on its suppliers for pricing and credit. The increase is directly related to the cost of sales.

Research & Development expenses decreased to $153,423 in the six months ended June 30, 2004 as compared to $213,593 in the comparable six months ended June 30, 2003. The decrease in research and development expenses during the first six months of 2004 was due to the limited resources available for product development. We believe that continual enhancements of our products will be required to enable SciDyn to maintain its competitive position. SciDyn will have to focus its principal future product development and resources on developing new, innovative, technical products and updating existing products in the communications area which will enable the Company to explore other established markets that are considered "safe" from the telecom disruption currently facing the industry. In addition, we have committed some of our engineering staff to the Evercom consulting contract.

Sales, General & Administrative expenses increased to $1,381,095 in the six months ended June 30, 2004, compared to $1,163,480 in the six months ended June 30, 2003. The increase was derived from the addition of the audiovisual division.

Depreciation expenses decreased to $69,592 in the six months ended June 30, 2004, compared to $171,663 in the six months ended June 30, 2003.

Interest Expense consists of interest paid and accrued on the Convertible Notes, and the interest due for the loan from a stockholder.

Finance Expense in the six months ended June 30, 2004 and 2003 was $44,891 and $80,988 respectively which consists of amortization of financing costs.

RESULTS OF OPERATIONS

The following table summarizes the basic results of operations for the periods indicated in the Consolidated Statement of Operations.

Three Months ended June 30, 2004 (unaudited) compared to the Three Months ended June 30, 2003 (unaudited).

	Three Months Ended June 30,	
	2004	2003

	----	----
Sales	1,047,176	1,298,588
Net Income (Loss)	(413,347)	(582,565)
Net Income (Loss) Per Share	$ (0.01)	$ (0.02)

	OPERATING EXPENSES		PERCENT OF SALES	
	Three Months Ended June 30,			
	2004	2003	2004	2003
Cost of Goods Sold	409,086	697,783	39.1%	53.7%
Research & Development	81,918	91,852	7.8%	7.1%
Sales, General & Admin.	687,287	884,338	65.6%	68.1%
Depreciation	41,332	106,807	3.9%	8.2%
Total Operating Costs and Expenses	1,219,623	1,780,780	116.5%	137.1%

Sales for the three months ended June 30, 2004 were $1,047,176, a decrease of $251,412 from sales of $1,298,588 for the three months ended June 30, 2003. Sales of $598,189 were derived from our audiovisual division, $448,987 was from software technology. The software technology divisions revenue in the three months ended June 30, 2004 was predominantly derived from two products: the MinuteMan Calling Platform and the Commander Product Line.

Cost of Goods Sold decreased to $409,086 in the three months ended June 30, 2004 compared to $697,783 in the corresponding three months ended June 30, 2003. $329,944 were derived from the audiovisual division and $79,142 were derived from the software technology division.

Research & Development expenses decreased to $81,918 in the three months ended June 30, 2004 as compared to $91,852 in the comparable three months ended June 30, 2003. The decrease in research and development expenses during the three months ended June 30, 2004 was due to the limited resources available for product development. We believe that continual enhancements of our products will be required to enable SciDyn to maintain its competitive position.

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SciDyn will have to focus its principal future product development and resources on developing new, innovative, technical products and updating existing products in the communications area which will enable the Company to explore other established markets that are considered "safe" from the telecom disruption currently facing the industry.

Sales, General & Administrative expenses decreased to $687,287 in the three months ended June 30, 2004, compared to $884,338 in the three months ended June 30, 2003. The decrease was due to continued cost cutting of non-essential expenses.

Depreciation expense decreased to $41,322 in the three months ended June 30, 2004, compared to $106,807 in the three months ended June 30, 2003.

Interest Expense consists of interest paid and accrued on the Convertible Notes, and the interest due for the loan from a stockholder.

Finance Expense in the three months ended June 30, 2004 and 2003 was $22,413 and $62,354 respectively which consists of amortization of financing costs.

LIQUIDITY AND CAPITAL RESOURCES:

Cash and cash equivalents increased to $78,483 from $74,250 at December 31, 2003. Net cash used in operating activities was $12,544 for the six months ended June 30, 2004 compared to $530,069 in the corresponding six months ended June 30, 2003. Net cash used in operating activities consist of net income of $313,343 increase in accounts receivable, and decrease in accounts payable and short term payables offset by an increase in accrued expenses, customer deposits and a decrease in inventory. Accounts payable consists of over extended accounts payable. Payment arrangements have been made with several vendors to extend payments over the next year. At the present time we are having difficulty meeting some of those arrangements. The accrued expenses consist primarily of accrued interest due on the convertible notes.

Net cash used in investing activities - There was no cash used for the three months ended June 30, 2004, and ended June 30, 2003. The lack of investing in capital equipment is attributable to budgetary restraints.

Net cash used in financing activities in the six months ended June 30, 2004 amounted to $8,311 compared to $620,500 provided in the corresponding six months ended June 30, 2003. Due our need for liquidity we negotiated two short-term notes for $150,000 that are collateralized by the future sale of the New Jersey Net Operating Loss. These notes will be paid directly from the sale of the Net Operating Loss with approximately $50,000 of interest. The proceeds of $150,000 short-term note were offset by the repayment of $108,311 on our revolving credit facility and $50,000 repayment of current portion of long term debt in connection with the acquisition of Modern Mass Media.

In June 2004 the Company was unable to meet the present payment terms of its convertible notes held by Laurus Master Funds, Ltd. On August 23, 2004 Laurus Master Fund waived any payment defaults under these notes until September 30, 2004. We are currently working with Laurus to develop a suitable conversion schedule.

In June 2004, we were notified by the seller of Modern Mass Media, that we were in default of the Purchase agreement. The Company was given until June 30, 2004 to rectify the default. On August 23, 2004 the Company reached an agreement with Chip Del Coro the seller of Modern Mass Media to execute a 30 day demand note in the amount of $132,000 as satisfaction of the default. We are presently working on a licensing agreement which would give us the necessary cash flow to satisfy the note and avoid default.

The cash requirements for funding our operations continue to exceed cash flows from operations. We have satisfied our operating cash flow deficiencies primarily through debt financing.

We have successfully negotiated payment arrangements with some of our vendors and are attempting to negotiate payment arrangements with other vendors. Some of the payment arrangements that have been made are currently in arrears no default notifications have been received. We cannot guarantee that any of these discussions will be successful. If we are unable to obtain successful negotiations, our business may well be severely adversely affected.

While SciDyn believes that its current cash flows are sufficient to pay the current expenses that the Company incurs, the Company is unable to pay past accounts payable, accrued expenses and convertible notes from current cash flows. In order to satisfy all of the Company's obligations that are due in the next twelve months, SciDyn must obtain additional financing through debt or equity. The inability to obtain the required additional funds could require SciDyn to reduce or curtail operations.

Item 3. Controls and Procedures.

As of the end of the period covered by this report, Science Dynamics conducted an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based upon this evaluation, Science Dynamics' principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no significant change in Science Dynamics' internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

In April 1, 2004 the Company issued 1,080,000 options to employees under the 2002 Employee Stock Option Plan at a price of $.18 per share.

In April 2004 the Company issued 196,079 shares of common stock for settlement of $30,000 in notes payable.

The issuance of the options and the shares was exempt from registration requirements of the Securities Act of 1933 pursuant to Section 4(2) of such Securities Act.

Item 3. Defaults Upon Senior Securities

In June 2004 the Company was unable to meet the present payment terms of its convertible notes held by Laurus Master Funds, Ltd. On August 23, 2004 Laurus Master Fund waived any payment defaults under these notes until September 30, 2004.

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

(a) Exhibits:

Exhibit No.	Description of Exhibit
3.1	Articles of Incorporation (1)
3.2	By-Laws (1)
31.1	Certification by Alan C. Bashforth, Chief Executive Officer and acting Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Alan C. Bashforth, Chief Executive Officer and acting Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the Company's Registration Statement on Form S-18, File Number 33-20687, effective April 21, 1981.

(b) Reports on Form 8-K:
None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, registrant has duly caused this report to be signed in its behalf by the undersigned thereunto duly authorized.

SCIENCE DYNAMICS CORPORATION

BY: /s/ Alan C. Bashforth

CEO/President/Acting CFO

DATED: August 23, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Signature	Title	Date
BY:	/s/ Alan C. Bashforth Alan C. Bashforth	CEO/President/Acting CFO Chairman of the Board Secretary	August 23, 2004