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SCIENTIFIC INDUSTRIES INC

Form 10-Q

February 12, 2010

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 December 31, 2009

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

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defined in Rule 12b-2 of the Exchange Act).

Yes      X      No  
\_\_\_\_\_

The number of shares outstanding of the issuer's common stock par value, \$0.05 per share, as of January 29, 2010 was 1,196,577 shares.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | ASSETS               |                  |
|---|----------------------|------------------|
|   | December 31,<br>2009 | June 30,<br>2009 |
|   | -----                | -----            |
| Current Assets:   | (Unaudited)          |                  |
| Cash and cash equivalents   | \$ 782,400           | \$ 738,400       |
| Investment securities   | 646,700              | 605,500          |
| Trade accounts receivable, net  | 548,700              | 806,700          |
| Inventories   | 1,761,600            | 1,598,000        |
| Prepaid expenses and other<br>current assets  | 79,100               | 91,600           |
| Deferred taxes  | 71,600               | 63,400           |
|   | -----                | -----            |
| Total current assets  | 3,890,100            | 3,903,600        |
| Property and equipment at cost, net   | 213,400              | 241,200          |
| Intangible assets, net  | 269,900              | 330,900          |
| Goodwill  | 310,600              | 265,400          |
| Other assets  | 25,700               | 25,700           |
| Deferred taxes  | 79,100               | 64,200           |
|   | -----                | -----            |
| Total assets  | \$4,788,800          | \$4,831,000      |
|   | =====                | =====            |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |                      |                  |
| Current Liabilities:  |                      |                  |
| Accounts payable  | \$ 75,100            | \$ 137,400       |
| Customer advances   | 349,500              | 359,600          |
| Accrued expenses and taxes  | 269,900              | 423,500          |
|   | -----                | -----            |
| Total current liabilities   | 694,500              | 920,500          |
|   | -----                | -----            |
| Shareholders' equity:   |                      |                  |
| Common stock, \$.05 par value;<br>authorized 7,000,000 shares;<br>1,216,379 and 1,212,379 issued<br>and outstanding at December 31,<br>2009 and June 30, 2009 | 60,800               | 60,600           |
| Additional paid-in capital  | 1,526,300            | 1,514,300        |
| Accumulated other comprehensive<br>loss   | ( 39,000)            | ( 79,600)        |
| Retained earnings   | 2,598,600            | 2,467,600        |

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|  |             |             |
|--|-------------|-------------|
|  | -----       | -----       |
|  | 4,146,700   | 3,962,900   |
| Less common stock held in<br>treasury, at cost,<br>19,802 shares | -----       | -----       |
|  | 52,400      | 52,400      |
| Total shareholders'<br>equity                                    | -----       | -----       |
|  | 4,094,300   | 3,910,500   |
| Total liabilities and<br>shareholders' equity                    | -----       | -----       |
|  | \$4,788,800 | \$4,831,000 |
|  | =====       | =====       |

See notes to unaudited condensed consolidated financial statements

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

|                                 | For the Three Month<br>Periods Ended<br>December 31, |             | For the Six Month<br>Periods Ended<br>December 31, |             |
|---------------------------------|--|-------------|--|-------------|
|                                 | -----  | -----       | -----  | -----       |
|                                 | 2009   | 2008        | 2009   | 2008        |
|                                 | -----  | -----       | -----  | -----       |
| Net sales                       | \$1,827,500  | \$1,755,100 | \$3,071,500  | \$2,727,400 |
| Cost of goods sold              | 1,055,600  | 1,139,600   | 1,763,700  | 1,776,600   |
| Gross profit                    | -----  | -----       | -----  | -----       |
|                                 | 771,900  | 615,500     | 1,307,800  | 950,800     |
| Operating Expenses:             |  |             |  |             |
| General & administrative        | 342,700  | 249,400     | 572,300  | 495,000     |
| Selling                         | 134,300  | 85,800      | 276,600  | 200,100     |
| Research & development          | 80,600   | 117,600     | 189,100  | 214,200     |
|                                 | -----  | -----       | -----  | -----       |
|                                 | 557,600  | 452,800     | 1,038,000  | 909,300     |
| Income from operations          | -----  | -----       | -----  | -----       |
|                                 | 214,300  | 162,700     | 269,800  | 41,500      |
| Interest & other<br>income, net | 9,800  | 6,900       | 13,900   | 17,900      |
|                                 | -----  | -----       | -----  | -----       |
| Income before income taxes      | 224,100  | 169,600     | 283,700  | 59,400      |
| Income tax expense (benefit):   |  |             |  |             |
| Current                         | 72,700   | 58,100      | 97,300   | 36,400      |
| Deferred                        | ( 7,900)   | ( 8,500)    | ( 16,400)  | ( 18,800)   |
|                                 | -----  | -----       | -----  | -----       |
|                                 | 64,800   | 49,600      | 80,900   | 17,600      |
| Net income                      | -----  | -----       | -----  | -----       |
|                                 | \$ 159,300   | \$ 120,000  | \$ 202,800   | \$ 41,800   |
|                                 | =====  | =====       | =====  | =====       |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Basic earnings per common share          | \$ .13 | \$ .10 | \$ .17 | \$ .04 |
| Diluted earnings per common share        | \$ .13 | \$ .10 | \$ .17 | \$ .03 |
| Cash dividends declared per common share | \$ -   | \$ -   | \$ .06 | \$ .08 |

See notes to unaudited condensed consolidated financial statements

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

|   | For the Six Month Periods Ended |                   |
|---|---------------------------------|-------------------|
|   | December 31, 2009               | December 31, 2008 |
| Operating activities:   |                                 |                   |
| Net income  | \$ 202,800                      | \$ 41,800         |
|   | -----                           | -----             |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |                   |
| Depreciation and amortization   | 102,200                         | 105,000           |
| Deferred income taxes   | ( 16,400)                       | ( 18,800)         |
| Stock-based compensation  | 6,500                           | 1,500             |
| Income tax benefit of stock options exercised   | 400                             | -                 |
| Changes in assets and liabilities:  |                                 |                   |
| Accounts receivable   | 258,000                         | ( 228,000)        |
| Inventories   | (163,600)                       | ( 54,700)         |
| Prepaid expenses and other current assets   | 12,500                          | 2,000             |
| Accounts payable  | ( 62,300)                       | ( 33,900)         |
| Customer advances   | ( 10,100)                       | ( 379,300)        |
| Accrued expenses and taxes  | ( 91,700)                       | ( 73,000)         |
|   | -----                           | -----             |
| Total adjustments   | 35,500                          | ( 679,200)        |
|   | -----                           | -----             |
| Net cash provided by (used in) operating activities   | 238,300                         | ( 637,400)        |
|   | -----                           | -----             |
| Investing activities:   |                                 |                   |
| Additional consideration for acquisition of Altamira Instruments, Inc.                      | (107,000)                       | ( 144,900)        |
| Purchase of investment securities, available-for-sale                                       | ( 7,400)                        | ( 8,900)          |
| Redemptions of investment securities, available-for-sale                                    | -                               | 50,000            |
| Capital expenditures  | ( 10,900)                       | ( 24,400)         |
| Purchase of intangible assets   | ( 2,500)                        | ( 3,400)          |
|   | -----                           | -----             |
| Net cash used in  |                                 |                   |

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|   |            |            |
|---|------------|------------|
| investing activities                                    | (127,800)  | ( 131,600) |
|   | -----      | -----      |
| Financing activities:                                   |            |            |
| Proceeds from exercise of stock options                 | 5,300      | -          |
| Proceeds from line of credit, bank                      | -          | 50,000     |
| Cash dividend declared and paid                         | ( 71,800)  | -          |
|   | -----      | -----      |
| Net cash provided by (used in)<br>financing activities  | ( 66,500)  | 50,000     |
|   | -----      | -----      |
| Net increase (decrease) in cash<br>and cash equivalents | 44,000     | ( 719,000) |
| Cash and cash equivalents,<br>beginning of year         | 738,400    | 1,065,500  |
|   | -----      | -----      |
| Cash and cash equivalents, end of period                | \$ 782,400 | \$ 346,500 |
|   | =====      | =====      |
| Cash paid during the period for:                        |            |            |
| Income Taxes  | \$ 156,800 | \$ 125,000 |

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, 2009. The results for the three and six months ended December 31, 2009, are not necessarily an indication of the results of the full fiscal year ending June 30, 2010.

1. Summary of significant accounting policies:

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of Scientific Industries, Inc., Altamira Instruments, Inc. ("Altamira"), a Delaware corporation and wholly-owned subsidiary, and Scientific Packaging Industries, Inc., an inactive wholly-owned subsidiary (all collectively referred to as the "Company"). All material intercompany balances and transactions have been eliminated.

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### Subsequent Events Evaluation

Management has reviewed and evaluated material subsequent events through the financial statement issuance date of February 12, 2010.

#### 2. Recent Accounting Pronouncements:

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 and Level 2 (see Note 5) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuances, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. Adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In April 2009, the FASB issued additional accounting guidance on how to determine fair value of financial assets and liabilities when the volume and level of activity for an asset or liability have significantly decreased and how to identify transactions that are not orderly in light of the current economic environment. If the Company were to conclude that there has been a significant decrease in the volume and level of activity of an asset or liability in relation to

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normal market activities, quoted market values may not be representative of fair value and the Company may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. The accounting guidance also clarified the recognition and presentation of other-than-temporary impairments of securities to bring consistency to the timing of impairment recognition, and provide clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. In addition, the accounting guidance required disclosures about fair value of financial instruments in annual financial statements of publicly traded companies to also be disclosed during interim reporting periods. The Company's adoption of the accounting guidance in July 2009 had no impact on the Company's consolidated financial statements and only required additional financial statement disclosures (see Note 5).

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### 3. Acquisition of Altamira Instruments, Inc.:

On November 30, 2006, the Company acquired all of the outstanding capital stock of Altamira. The acquisition was pursuant to a Stock Purchase Agreement (the "Agreement") whereby the Company paid to the sellers at the Closing \$400,000 in cash, and issued to them 125,000 shares of the Company's Common Stock and agreed to make additional cash payments equal to 5%, subject to adjustment, of the net sales of Altamira for each of five periods December 1, 2006 to June 30, 2007, each of the fiscal years ending June 30, 2008, 2009, and 2010, and July 1, 2010 to November 30, 2010.

Altamira's principal customers are universities, government laboratories, and chemical and petrochemical companies. The instruments are customizable to the customer's specifications, and are sold on a direct basis.

In conjunction with the acquisition of Altamira, management of the Company valued the tangible and intangible assets acquired, including goodwill, customer relationships, non-compete agreements, and certain technology, trade names and trademarks. The carrying amounts of goodwill and other intangible assets are presented in Note 9, "Goodwill and Other Intangible Assets" which represent the valuations determined in conjunction with the acquisition. In addition, other fair market value adjustments were made in conjunction with the acquisition, primarily adjustments to property and equipment, and inventory.

As of December 31, 2009, the total adjusted aggregate purchase price, including the additional cash payments of \$363,200 which have been paid or accrued, was allocated to assets acquired and liabilities assumed as follows:

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|                         |             |
|-------------------------|-------------|
| Current assets          | \$ 734,000  |
| Property and equipment  | 140,300     |
| Non-current assets      | 25,100      |
| Goodwill                | 310,600     |
| Other intangible assets | 639,000*    |
| Current liabilities     | ( 561,900)  |
|                         | -----       |
| Adjusted purchase price | \$1,287,100 |
|                         | =====       |

\*Of the \$639,000 of other intangible assets, \$237,000 was allocated to customer relationships with an estimated useful life of 10 years, \$300,000 was allocated to technology including trade names and trademarks with a useful life of 5 years, and \$102,000 was allocated to a non-compete agreement with a useful life of 5 years. The amount allocated to the customer relationships is being amortized on an accelerated (declining balance) method and the other intangibles are being amortized on a straight-line

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basis.

### 4. Segment Information and Concentrations:

The Company views its operations as two 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 Operations"), and 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 Operations").

Segment information is reported as follows:

|                                       | Benchtop<br>Laboratory<br>Equipment<br>----- | Catalyst<br>Research<br>Instruments<br>----- | Corporate<br>and<br>Other<br>----- | Consolidated<br>----- |
|---------------------------------------|--|--|------------------------------------|-----------------------|
| Three months ended December 31, 2009: |  |  |                                    |                       |
| Net Sales                             | \$1,156,800                                  | \$ 670,700                                   | \$ -                               | \$1,827,500           |
| Foreign Sales                         | 680,500                                      | 23,500                                       | -                                  | 704,000               |
| Segment Profit                        | 190,800                                      | 23,500                                       | 9,800                              | 224,100               |
| Segment Assets                        | 2,216,100                                    | 1,464,700                                    | 1,108,000                          | 4,788,800             |
| Long-Lived Asset<br>Expenditures      | 5,300  | -  | -                                  | 5,300                 |
| Depreciation and<br>Amortization      | 15,400                                       | 35,000                                       | -                                  | 50,400                |
|                                       | Benchtop<br>Laboratory<br>Equipment<br>----- | Catalyst<br>Research<br>Instruments<br>----- | Corporate<br>and<br>Other<br>----- | Consolidated<br>----- |
| Three months ended December 31, 2008: |  |  |                                    |                       |
| Net Sales                             | \$1,015,900                                  | \$ 739,200                                   | \$ -                               | \$1,755,100           |
| Foreign Sales                         | 645,200                                      | 22,200                                       | -                                  | 667,400               |
| Segment Profit                        | 109,400                                      | 53,300                                       | 6,900                              | 169,600               |
| Segment Assets                        | 2,325,700                                    | 1,033,300                                    | 886,200                            | 4,245,200             |
| Long-Lived Asset<br>Expenditures      | 1,500  | 17,200                                       | -                                  | 18,700                |
| Depreciation and<br>Amortization      | 14,500                                       | 37,500                                       | -                                  | 52,000                |

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Approximately 74% and 69% of net sales of benchtop laboratory equipment for the three month periods ended December 31, 2009 and 2008, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two benchtop laboratory equipment customers accounted in the aggregate for the three month periods ended December 31, 2009 and 2008 for approximately 24% of the segment's net sales (15% of total net sales) and 30% of the segment's net sales (17% of total net sales), respectively.

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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 who differed from period-to-period accounted for 69% and 93% of that segment's net sales (34% and 38% of total net sales) for the three month periods ended December 31, 2009 and 2008, respectively.

|                                     | Benchtop<br>Laboratory<br>Equipment | Catalyst<br>Research<br>Instruments | Corporate<br>and<br>Other | Consolidated |
|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------|
| Six months ended December 31, 2009: |                                     |                                     |                           |              |
| Net Sales                           | \$2,168,400                         | \$ 903,100                          | \$ -                      | \$3,071,500  |
| Foreign Sales                       | 1,191,300                           | 169,100                             | -                         | 1,360,400    |
| Segment Profit (Loss)               | 310,200                             | ( 40,400)                           | 13,900                    | 283,700      |
| Segment Assets                      | 2,216,100                           | 1,464,700                           | 1,108,000                 | 4,788,800    |
| Long-Lived Asset<br>Expenditures    | 13,400                              | -                                   | -                         | 13,400       |
| Depreciation and<br>Amortization    | 31,400                              | 70,800                              | -                         | 102,200      |

|                                     | Benchtop<br>Laboratory<br>Equipment | Catalyst<br>Research<br>Instruments | Corporate<br>and<br>Other | Consolidated |
|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------|
| Six months ended December 31, 2008: |                                     |                                     |                           |              |
| Net Sales                           | \$1,902,400                         | \$ 825,000                          | \$ -                      | \$2,727,400  |
| Foreign Sales                       | 1,125,700                           | 91,500                              | -                         | 1,217,200    |
| Segment Profit (Loss)               | 201,700                             | ( 157,900)                          | 15,600                    | 59,400       |
| Segment Assets                      | 2,325,700                           | 1,033,300                           | 886,200                   | 4,245,200    |
| Long-Lived Asset<br>Expenditures    | 8,000                               | 19,800                              | -                         | 27,800       |
| Depreciation and<br>Amortization    | 29,500                              | 75,500                              | -                         | 105,000      |

Approximately 70% of net sales of benchtop laboratory equipment for each of the six month periods ended December 31, 2009 and 2008, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two benchtop laboratory equipment customers, accounted in the aggregate for approximately 29% and 31% of the segment's net sales for the six month periods ended December 31, 2009 and 2008, respectively (20% and 22% of total net sales for the 2009 and 2008 periods, respectively).

Sales of catalyst research instruments to five different customers, accounted for approximately 78% of that segment's net sales (27% of total net sales) for the six months ended

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December 31, 2009. Sales to three other customers accounted for 78% of the segment's net sales (23% of total net sales) for the six month period ended December 31, 2008.

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 as follows:

- 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 valuation 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 that were accounted for at fair value on a recurring basis at December 31, 2009 and June 30, 2009 according to the valuation techniques the Company used to determine their fair values:

#### Fair Value Measurements Using Inputs Considered as

|                               | Fair Value at<br>December 31, 2009 | Level 1            | Level 2     | Level 3     |
|-------------------------------|------------------------------------|--------------------|-------------|-------------|
|                               | -----                              | -----              | -----       | -----       |
| Cash and cash equivalents     | \$ 782,400                         | \$ 782,400         | \$ -        | \$ -        |
| Available for sale securities | 646,700                            | 646,700            | -           | -           |
|                               | -----                              | -----              | -----       | -----       |
| <b>Total</b>                  | <b>\$1,429,100</b>                 | <b>\$1,429,100</b> | <b>\$ -</b> | <b>\$ -</b> |
|                               | =====                              | =====              | =====       | =====       |

#### Fair Value Measurements Using Inputs Considered as

|                           | Fair Value at<br>June 30, 2009 | Level 1    | Level 2 | Level 3 |
|---------------------------|--------------------------------|------------|---------|---------|
|                           | -----                          | -----      | -----   | -----   |
| Cash and cash equivalents | \$ 738,400                     | \$ 738,400 | \$ -    | \$ -    |

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|                               |             |             |       |       |
|-------------------------------|-------------|-------------|-------|-------|
| Available for sale securities | 605,500     | 605,500     | -     | -     |
|                               | -----       | -----       | ----- | ----- |
| Total                         | \$1,343,900 | \$1,343,900 | \$ -  | \$ -  |
|                               | =====       | =====       | ===== | ===== |

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Investments in marketable securities classified as available-for-sale by security type at December 31, 2009 and June 30, 2009 consisted of the following:

|                       | Cost       | Fair Value | Unrealized Holding Gain (Loss) |
|-----------------------|------------|------------|--------------------------------|
|                       | -----      | -----      | -----                          |
| At December 31, 2009: |            |            |                                |
| Available for sale:   |            |            |                                |
| Equity securities     | \$ 7,800   | \$ 9,900   | \$ 2,100                       |
| Mutual funds          | 677,900    | 636,800    | (41,100)                       |
|                       | -----      | -----      | -----                          |
|                       | \$ 685,700 | \$ 646,700 | \$ (39,000)                    |
|                       | =====      | =====      | =====                          |

|                     | Cost       | Fair Value | Unrealized Holding Gain (Loss) |
|---------------------|------------|------------|--------------------------------|
|                     | -----      | -----      | -----                          |
| At June 30, 2009:   |            |            |                                |
| Available for sale: |            |            |                                |
| Equity securities   | \$ 6,200   | \$ 8,900   | \$ 2,700                       |
| Mutual funds        | 678,900    | 596,600    | (82,300)                       |
|                     | -----      | -----      | -----                          |
|                     | \$ 685,100 | \$ 605,500 | \$ (79,600)                    |
|                     | =====      | =====      | =====                          |

6. Inventories:

Inventories for interim financial statement purposes are based on perpetual inventory records at the end of the applicable period. Components of inventory are as follows:

|                 | December 31, 2009 | June 30, 2009 |
|-----------------|-------------------|---------------|
|                 | -----             | -----         |
| Raw Materials   | \$ 964,500        | \$ 1,068,500  |
| Work in process | 642,900           | 321,000       |
| Finished Goods  | 154,200           | 208,500       |
|                 | -----             | -----         |
|                 | \$1,761,600       | \$ 1,598,000  |
|                 | =====             | =====         |

7. Earnings per common share:

Basic earnings 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.

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Earnings per common share was computed as follows:

|  | For the Three Month<br>Periods Ended<br>December 31, |            | For the Six Month<br>Periods Ended<br>December 31, |           |
|--|--|------------|--|-----------|
|  | 2009   | 2008       | 2009   | 2008      |
| Net income   | \$ 159,300   | \$ 120,000 | \$ 202,800   | \$ 41,800 |
| Weighted average common<br>shares outstanding          | 1,196,577  | 1,181,352  | 1,195,534  | 1,181,352 |
| Effect of dilutive<br>securities                       | 19,553   | 28,246     | 14,888   | 32,516    |
| Weighted average dilutive<br>common shares outstanding | 1,216,130  | 1,209,598  | 1,210,422  | 1,213,868 |
| Basic earnings per<br>common share                     | \$ .13   | \$ .10     | \$ .17   | \$ .04    |
| Diluted earnings per<br>common share                   | \$ .13   | \$ .10     | \$ .17   | \$ .03    |

Approximately 1,500 and 6,500 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 the three months ended December 31, 2009 and 2008, because the effect would be anti-dilutive. Approximately 20,500 and 1,500 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 the six months ended December 31, 2009 and 2008, because the effect would be anti-dilutive.

8. Comprehensive Income (Loss):

The FASB established standards for disclosure of comprehensive income or loss, which includes net income and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in the net unrealized gains or losses on securities.) The Company's only source of other comprehensive income is the net unrealized gain or loss on securities. The components of comprehensive income (loss) were as follows:

|            | For the Three Month<br>Periods Ended<br>December 31, |           | For the Six Month<br>Periods Ended<br>December 31, |           |
|------------|--|-----------|--|-----------|
|            | 2009   | 2008      | 2009   | 2008      |
| Net Income | \$159,300  | \$120,000 | \$202,800  | \$ 41,800 |

Other comprehensive income(loss):

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|  |                      |                      |
|--|----------------------|----------------------|
| Unrealized holding gain<br>(loss) arising during<br>period, net of tax | 4,500 ( 32,200)      | 40,600 ( 48,400)     |
| Comprehensive income (loss)  | \$ 163,800 \$ 87,800 | \$243,400 (\$ 6,600) |

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9. Goodwill and Other Intangible Assets:

In conjunction with the acquisition of Altamira, management of the Company valued the tangible and intangible assets acquired, including customer relationships, non-compete agreements and technology which encompasses trade names, trademarks and licenses. The valuation resulted in an initial negative goodwill of approximately \$91,500 on the date of acquisition which was subsequently adjusted to positive goodwill of \$310,600 and \$265,400 at December 31, 2009 and June 30, 2009, respectively, all of which is deductible for tax purposes. The related agreement provides for contingent payments to the former shareholders based on net sales for five designated periods of the Catalyst Research Instrument Operations subject to certain limits, which are expected to be earned and paid. Additional consideration amounted to \$45,200 and \$41,200 for the six months ended December 31, 2009, and 2008, respectively.

The components of other intangible assets are as follows:

|                         | Useful<br>Lives | Cost      | Accumulated<br>Amortization | Net       |
|-------------------------|-----------------|-----------|-----------------------------|-----------|
| At December 31, 2009:   |                 |           |                             |           |
| Technology              | 5 yrs.          | \$300,000 | \$185,000                   | \$115,000 |
| Customer relationships  | 10 yrs.         | 237,000   | 145,200                     | 91,800    |
| Non-compete agreement   | 5 yrs.          | 102,000   | 62,900                      | 39,100    |
| Other intangible assets | 5 yrs.          | 127,000   | 103,000                     | 24,000    |
|                         |                 | \$766,000 | \$496,100                   | \$269,900 |

|                         | Useful<br>Lives | Cost      | Accumulated<br>Amortization | Net       |
|-------------------------|-----------------|-----------|-----------------------------|-----------|
| At June 30, 2009:       |                 |           |                             |           |
| Technology              | 5 yrs.          | \$300,000 | \$155,000                   | \$145,000 |
| Customer relationships  | 10 yrs.         | 237,000   | 129,200                     | 107,800   |
| Non-compete agreement   | 5 yrs.          | 102,000   | 52,700                      | 49,300    |
| Other intangible assets | 5 yrs.          | 124,400   | 95,600                      | 28,800    |
|                         |                 | \$763,400 | \$432,500                   | \$330,900 |

Total amortization expense was \$31,400 and \$34,100 for the three months ended December 31, 2009 and 2008, respectively and \$63,400 and \$69,000 for the six months ended December 31, 2009 and 2008, respectively. As of December 31, 2009, estimated future amortization

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expense related to intangible assets is \$57,800 for the remaining six months of the fiscal year ending June 30, 2010, \$109,500 for fiscal 2011, \$52,600 for fiscal 2012, \$13,000 for fiscal 2013, \$9,300 for fiscal 2014, and \$27,700 thereafter.

### 10. Note Payable

On January 20, 2010, the Company and Capital One Bank, N.A. ("Bank") agreed to extend through January 3, 2011 in the form of a restatement, the Company's existing promissory note, which provides for maximum borrowings of up to \$500,000. Interest is charged at the Bank's prime rate, which was 3.25% as of December 31, 2009 and advances are at the discretion of the Bank. The Company had no borrowings outstanding as of December 31, 2009 and June 30, 2009.

The borrowings are collateralized by the Company's assets to the extent of amounts borrowed and outstanding and all outstanding amounts are due and payable on January 3, 2011.

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## 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 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

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Cash and cash equivalents increased by \$44,000 to \$782,400 as of December 31, 2009 from \$738,400 as of June 30, 2009.

Net cash provided by operating activities was \$238,300 for the six months ended December 31, 2009 as compared to net cash used in operating activities of \$637,400 for the comparable six month period in 2008, due mainly to the income generated during the current year period, lower accounts receivable balances and monies received in advance from customers of Altamira with respect to their orders. Cash used in investing activities was \$127,800 for the six month period ended December 31, 2009 compared to \$131,600 for the six month period ended December 31, 2008 primarily due to a lower amount of additional contingent consideration paid for the

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acquisition of Altamira Instruments, Inc.

On September 17, 2009, the Board of Directors of the Company declared a cash dividend of \$.06 per share of Common Stock which was paid on December 21, 2009 to holders of record as of the close of business on October 23, 2009. Net cash used in financing activities for the six months ended December 31, 2009 was \$66,500 compared to \$50,000 provided by financing activities for the comparable period last year primarily due to the foregoing cash dividend. (The previous year's cash dividend was paid in January 2009).

The Company's working capital increased by \$212,500 to \$3,195,600 as of December 31, 2009 from the working capital of \$2,983,100 at June 30, 2009 mainly as result of the income for the six months ended December 31, 2009. Pursuant to a promissory note with Capital One Bank, N.A. which was restated in January 2010 and extended from November 1, 2009 to January 3, 2011, at the request of the Company, the Bank at its sole discretion may extend to the Company advances not to exceed an aggregate of \$500,000. The advances are to be secured by the Company's assets and bear interest at the Bank's prime rate. Management believes that the Company will be able to meet its cash flow needs for the next 12 months from its available financial resources including the restated promissory note and investment securities.

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### Results of Operations

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#### Financial Overview

The Company recorded higher pre-tax income of \$224,100 and \$283,700, respectively, for the three and six month periods ended December 31, 2009 compared to \$169,600 and \$59,400 for the 2008 periods. For the comparative three month periods, the segment profit of the Benchtop Laboratory Equipment Operations increased by \$81,400 to \$190,800 from \$109,400 due to higher sales and increased gross margins, while the segment profit of the Catalyst Research Instruments Operations of the current year's three month period was \$23,500 compared to \$53,300 for the same period of the prior fiscal year due to lower sales.

For the comparative six month periods, the Benchtop Laboratory Equipment Operations segment profit increased by \$108,500 to \$310,200 from \$201,700 for the comparable six month period of the prior fiscal year, resulting from higher sales and gross margins. The Catalyst Research Instruments Operations recorded a loss of \$40,400 for the six month period ended December 31, 2009 compared to a loss of \$157,900 for the same six month period of the prior fiscal year, such reduction resulted from an increase in sales and lower expenses including research and development. As of December 31, 2009, the Catalyst Research Instrument Operations had an order backlog of \$1,200,000, (substantially all of which is expected to be fulfilled by the end of fiscal year 2010), compared to \$828,000 as of December 31, 2008.

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The Three Months Ended December 31, 2009 Compared With the Three Months Ended December 31, 2008

Net sales for the three months ended December 31, 2009 increased \$72,400 (4.1%) to \$1,827,500 from \$1,755,100 for the three months ended December 31, 2008 as a result of an increase of \$140,900 in sales of benchtop laboratory equipment, partially offset by a \$68,500 reduction in sales of catalyst research instruments. Sales of benchtop laboratory equipment products generally are pursuant to many small purchase orders from distributors, while sales of the catalyst research instruments are comprised of a small number of larger orders, typically averaging over \$100,000 each; hence its sales revenues are subject to significant swings.

The Company's gross profit percentage for the three months ended December 31, 2009 increased to 42.2% from 35.1% for the three months ended December 31, 2008, due primarily to lower material costs and fixed overhead spread over higher sales for benchtop laboratory equipment, and lower indirect engineering costs for the Catalyst Research Instruments Operations.

General and administrative expenses ("G&A") for the three month comparative periods ended December 31, 2009 and December 31, 2008 increased by \$93,300 (37.4%) to \$342,700 from \$249,400 primarily as a result of higher salaries and consulting costs for Sarbanes-Oxley for the 2009 period.

Selling expenses for the three months ended December 31, 2009 increased \$48,500 (56.5%) to \$134,300 compared to \$85,800 for the three months ended December 31, 2008, due primarily to the addition of a new Sales Manager for the Benchtop Laboratory Equipment Operations.

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Research and development expenses decreased \$37,000 (31.5%) to \$80,600 for the three months ended December 31, 2009 compared to \$117,600 for the three months ended December 31, 2008 as a result of reduced new product development activity for both business segments.

Interest and other income for the three months ended December 31, 2009 increased \$2,900 (42.0%) to \$9,800 from \$6,900 for the three months ended December 31, 2008 primarily due to the rental income derived from new sublease for the Bohemia, NY location.

Income tax expense for the three months ended December 31, 2009 was \$64,800 compared to \$49,600 for the three months ended December 31, 2008, mainly due to the higher income.

As a result of the foregoing, net income for the three months ended December 31, 2009 was \$159,300, an increase of \$39,300 (32.8%) from \$120,000 for the three months ended December 31, 2008.

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The Six Months Ended December 31, 2009 Compared With the Six Months Ended December 31, 2008

Net sales for the six months ended December 31, 2009 increased by \$344,100 (12.6%) to \$3,071,500 compared to \$2,727,400 for the six months ended December 31, 2008, due to a \$266,000 increase in benchtop laboratory equipment net sales, and a \$78,100 increase in catalyst research instruments net sales. 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; hence revenues are subject to significant swings.

The gross profit percentage for the six months ended December 31, 2009 increased to 42.6% compared to 34.9% for the six months ended December 31, 2008, due primarily to lower material costs and fixed overhead spread over higher sales for benchtop laboratory equipment, and lower indirect engineering costs for the Catalyst Research Instruments Operations.

G & A expenses increased by \$77,300 (15.6%) to \$572,300 for the six months ended December 31, 2009 from \$495,000 for the comparable period last year, primarily as a result of higher salaries and consulting costs for Sarbanes-Oxley.

Selling expenses for the six months ended December 31, 2009 increased by \$76,500 (38.2%) to \$276,600 from \$200,100 for the six months ended December 31, 2008, due primarily to the addition in 2009 of a new Sales Manager for the Benchtop Laboratory Equipment Operations.

Research and development expenses for the six months ended December 31, 2009 decreased \$25,100 (11.7%) to \$189,100 compared to \$214,200 for the six months ended December 31, 2008, primarily the result of reduced new product development activity for the Catalyst Research Instruments Operations.

Interest and other income for the six month period ended December 31, 2009 decreased by \$4,000 (22.3%) to \$13,900 compared to \$17,900 for the six months ended December 31, 2008, mainly as a result of lower returns on investment securities.

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Income tax expense for the six months ended December 31, 2009 was \$80,900 compared to \$17,600 for the six months ended December 31, 2008, mainly due to the higher income.

Interest and other income for the three months ended December 31, 2009 increased \$2,900 (42.0%) to \$9,800 from \$6,900 for the three months ended December 31, 2008 primarily due to the rental income derived from new sublease for the Bohemia, NY location.

As a result of the foregoing, net income for the six months ended December 31, 2009 was \$202,800, an increase of \$161,000 (385.2%) from \$41,800 for the six months ended December 31, 2008.

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### 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 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:

On January 20, 2009 Registrant filed a Report on Form 8-K, reporting under Item 1.01.

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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: February 12, 2010