SCIENTIFIC INDUSTRIES INC
Form 10-K
September 16, 2011

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

FORM 10-K

(Mark One)

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2011

TRANSITION REPORT PURSUANT TO 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 in Its Charter)

Delaware	04-2217279
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
70 Orville Drive, Bohemia, New York	11716
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (631) 567-4700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, par value $.05 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [x]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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 (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes [ ] No [x]

The aggregate market value of the voting stock held by non-affiliates computed by reference to the average bid and asked prices of such stock, as of August 19, 2011 is $3,703,400.

The number of shares outstanding of the registrant?s common stock, par value $.05 per share ("Common Stock") as of August 19, 2011 is 1,196,577 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

SCIENTIFIC INDUSTRIES, INC.

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Forward Looking Statements. The Company and its representatives may from time to time make written or oral forward-looking statements with respect to the Company's annual or long-term goals, including statements contained in its filings with the Securities and Exchange Commission and in its reports to stockholders.

The words or phrases "will likely result," "are expected to," "will continue to," "is anticipated," "estimate," "project" or similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

PART I

Item 1. Business.

General. Incorporated in 1954, Scientific Industries, Inc., a Delaware corporation (which along with its subsidiaries, the "Company"), is engaged in the design, manufacture, and marketing of standard benchtop laboratory equipment ("Benchtop Laboratory Equipment") and since November 2006, upon the acquisition of the outstanding shares of Altamira Instruments, Inc., a Delaware corporation ("Altamira") customized catalyst research instruments ("Catalyst Research Instruments"). The Company's products are used primarily for research purposes by universities, hospitals, pharmaceutical companies, clinics, medical device manufacturers, petrochemical companies and other related industries.

See "Proposed Acquisition" for the possible expansion of the Company's operation in the bioprocessing field.

Operating Segments. 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, and the manufacture and marketing of custom-made Catalyst Research Instruments for universities, government laboratories, and chemical and petrochemical companies. For certain financial information regarding the Company's operating segments, see Note 2 to the consolidated financial statements included under Item 8.

Products.

Benchtop Laboratory Equipment. The Company's Benchtop Laboratory Equipment products consist of mixers and shakers, rotators/rockers, refrigerated and shaking incubators, and magnetic stirrers. Sales of the Vortex-Genie (R) 2 Mixer, the Company's principal product, excluding accessories, represented approximately 52% and 41% of the Company's total sales for the fiscal years ended June 30, 2011 ("fiscal 2011") and June 30, 2010 ("fiscal 2010"), respectively, or 68%, of the segment's sales for each of fiscal 2011 and fiscal 2010.

The vortex mixer is used to mix the contents of test tubes, beakers, and other various containers by placing such containers on a rotating cup or other attachments which cause the contents to be mixed at varying speeds.

The Company's additional mixers and shakers include a high speed touch mixer; a mixer with an integral timer, a patented cell disruptor; microplate mixers, a vortex mixer incorporating digital control and display; a large capacity multi-vessel vortex mixer and shaker, and a large capacity orbital shaker.

The Company also offers various benchtop multi-purpose rotators and rockers, designed to rotate and rock a wide variety of containers, and a refrigerated incubator and an incubator shaker, both of which are multi-functional benchtop environmental chambers designed to perform various shaking and stirring functions under controlled environmental conditions.

Its line of magnetic stirrers include a patented high/low programmable magnetic stirrer; a four-place high/low programmable magnetic stirrer; a large volume magnetic stirrer available in analog and digital versions; and a four-place general purpose stirrer also available in analog and digital versions.

Catalyst Research Instruments. The Catalyst Research Instrument products are offered through the Company's subsidiary, Altamira. Its flagship product is the AMI-200(TM), which is used to perform traditional catalyst characterization experiments on an unattended basis. The product also features a stand-alone personal computer to control the instrument and incorporates proprietary LabVIEW(R)-based software. The Company's AMI-300(TM) Catalyst Characterization Instrument, introduced in June 2009, incorporates a sophisticated data handling package and is designed to perform dynamic temperature-programmed catalyst characterization experiments. All AMI model instruments are designed or adapted to a customer's individual requirements.

Its other Catalyst Research Instrument products include reactor systems, high throughput systems and micro-activity reactors, including the Company's BenchCAT(TM) custom reactor systems. They are available with single and multiple reactor paths and with reactor temperatures up to 1200 degrees Celsius. The systems feature multiple gas flows, are available in gas and gas/liquid configurations, and feature one or more stand-alone personal computers with the LabVIEW(R)-based control software. In June, 2011, the Company introduced the new MicroBenchCat Microreactor, a fully automated reactor system.

Product Development. The Company designs and develops substantially all of its products. Company personnel formulate plans and concepts for new products and improvements or modifications of existing products. The Company engages outside consultants to augment its capabilities in areas such as industrial and electronics design.

Major Customer. Sales, principally of the Vortex-Genie 2 Mixer, to one customer, which is one of the two major distributors of laboratory equipment, represented 11% of total sales for fiscal 2011, and 14.6% of Benchtop Laboratory Equipment product sales. For fiscal 2010, sales to the customer accounted for 14.5% of the segment's sales but less than 10% of total sales. Sales of Catalyst Research Instrument products are generally pursuant to a few large orders amounting on average to over $100,000 to a limited number of customers. In fiscal 2011, sales to two customers, each of which represented at least 10% of that segment's sales, accounted for an aggregate of 30% of the segment's sales (7% of total sales). In fiscal 2010, sales to three different customers, each of which represented at least 10% of that segment's sales, accounted for an aggregate of 45% of the segment's total sales (18% of total sales).

Marketing.

Benchtop Laboratory Equipment. The Company's Benchtop Laboratory Equipment products are generally distributed and marketed through an established network of domestic and overseas laboratory equipment distributors, who sell the Company's products through printed catalogs, websites and sales force. See "Major Customer". The Company also markets products through attendance at industry trade shows, trade publication advertising, brochures and catalogs, the Company's website, and through the efforts of its first sales managers.

In general, due to the reliance on sales through the catalog distribution system, it takes two to three years for a new benchtop laboratory equipment product to begin generating meaningful sales.

Catalyst Research Instruments. The Company's Catalyst Research Instruments are sold directly worldwide to universities, government laboratories, and chemical and petrochemical companies through its sales personnel and independent representatives engaged on a commission basis. Its marketing efforts include attendance at various trade shows, Altamira's website, outside sales representatives, and printed materials.

Assembly and Production. The Company has an operating facility in Bohemia, New York from which its Benchtop Laboratory Equipment Operations are conducted and another in Pittsburgh, Pennsylvania from which its Catalyst Research Instruments Operations are conducted. The Company's production operations principally involve assembly of components supplied by various domestic and international independent suppliers.

Patents, Trademarks, and Licenses.

The Company holds several United States patents relating to its products, including a patent which expires in September 2015 for the TurboMix(TM), an accessory to the Vortex-Genie 2 Mixer, a patent which expires in July 2016 on the Roto-Shake Genie(R); a patent which expires in November 2022 on the MagStir Genie(R), MultiMagStir Genie(R), and Enviro-Genie(R), and a patent which expires in January 2023 on a biocompatible bag with integral sensors.

The Company has various proprietary marks, including

AMI(TM), BenchCAT(TM), BioGenie(R), Disruptor Beads(TM), Disruptor Genie(R), Enviro-Genie(R), Genie(TM), MagStir Genie(R), MegaMag Genie(R), MicroPlate Genie(R), MultiMagStir Genie(R), Multi-MicroPlate Genie(R), Orbital-Genie(R), QuadMag Genie(R), Roto-Shake Genie(R), TurboMix(TM), and Vortex-Genie(R), each of which it considers important to the success of the related product. The Company also has several trademark applications pending. No representation can be made that any application will be granted or as to the protection that any existing or future trademark may provide.

The Company has several licensing agreements for technology and patents used in the Company's business. A non-exclusive worldwide sublicense from Fluorometrix Corporation relates to the development, production and marketing of incubator systems for vessels, including bags in volumes ranging from 250 milliliters to 5 liters, See "Proposed Acquisition". The Company also holds a license as to the technology related to its patent for the Roto-Shake Genie, and a patent related to its TurboMix attachment for the Vortex-Genie and Disruptor Genie. The license fees for fiscal 2011 and fiscal 2010 amounted to $11,700 and $12,900, respectively.

Foreign Sales. The Company's sales to overseas customers, including distributors, principally in Asia and Europe, accounted for approximately 54% and 37% of the Company's net sales for fiscal 2011 and fiscal 2010, respectively. Such sales are paid in United States dollars and are therefore not subject to risks of currency fluctuation, foreign duties and customs.

Seasonality. The Company does not consider its business to be seasonal.

Backlog. The backlog for Benchtop Laboratory Equipment products is not significant because this line of products is comprised of standard catalog items requiring lead times which usually are not longer than two weeks. The backlog for Catalyst Research Instrument products as of June 30, 2011 was $424,600, most of which is expected to be filled by September 30, 2011, as compared to a backlog of $454,000 as of June 30, 2010, all of which was filled in Fiscal 2011.

Competition. Most of the Company's competitors are substantially larger and have greater financial, production and marketing resources than the Company. Competition is generally based upon technical specifications, price, and product recognition and acceptance. The Company's main competition for its Benchtop Laboratory Equipment products in the United States derives from private label brand mixers offered by the two largest laboratory equipment distributors in the United States, who dominate the end user market. The Company believes its vortex mixer products and trademarks are factors in that market around the world.

The Company's major competitors for its Benchtop Laboratory Equipment are Henry Troemner, Inc. (a private label supplier to the two largest laboratory equipment distributors in the U.S. and

Europe), IKA-Werke GmbH & Co. KG, a German company, Benchmark Scientific, Inc., (a U.S. importer of China-produced products) and Heidolph Instruments GmbH, a German company.

The primary competition for the Company's Catalyst Research Instrument products is in the form of instruments produced internally by research laboratory staffs of potential customers. Competitors in the United States include Quantachrome Instruments, and Micromeritics Instrument Corporation, each a privately-held company.

Research and Development. The Company incurred research and development expenses, the majority of which related to new Benchtop Laboratory Equipment products, of $324,400 during fiscal 2011 compared to $343,800 during fiscal 2010. The Company expects research and development expenditures in the fiscal year ending June 30, 2012 to be at the approximate same level of those for fiscal 2011, except for expenditures related to the proposed acquisition described under "Proposed Acquisition".

Government and Environmental Regulation. The Company's products and claims with respect thereto have not required approval of the Food and Drug Administration or any other government approval. The Company's manufacturing operations, like those of the industry in general, are subject to numerous existing and proposed, if adopted, federal, state, and local regulations to protect the environment, establish occupational safety and health standards and cover other matters. The Company believes that its operations are in compliance with existing laws and regulations and the cost to comply is not significant to the Company.

Employees. As of August 19, 2011, the Company employed 29 persons (18 for the Benchtop Laboratory Equipment Operations and 11 for the Catalyst Research Instruments Operations) of whom 25 were full-time, including its three executive officers. None of the Company's employees are represented by any union.

Proposed Acquisition. In May 2011, the Company agreed in principle to acquire from Fluorometrix Corporation, a small privately held corporation, substantially all of its assets consisting principally of an exclusive license (the "License") from the University of Maryland Baltimore County ("UMBC") with respect to the related rights and know-how under a patent held by UMBC entitled "Microbioreactor Apparatus and Technology for High Throughout Bioprocessing" and related sublicenses granted thereunder, including the sublicense referred to under "Patents, Trademarks and Licenses" held by the Company, with respect to the exclusive world-wide rights to the product and service income from any bioprocessing application but not limited to bioreactor systems, disposable reactor, shaker and other flash system.

The proposed acquisition consideration, if consummated, will be approximately $900,000 payable in cash, a promissory note and shares of common stock, plus a contingent amount payable of the net fees and royalties received by the Company and its subsidiaries under the License and sublicenses acquired. The design and development of methods, systems, processes and products by the Company under the License, is to be done pursuant to a research and development agreement with a company affiliated with the President of the assignor.

No assurance can be given that the proposed acquisition will be consummated or if consummated as to its final terms. If consummated, that any products, methods, systems or processes will be successfully developed or that any material royalties and fees will be generated under the License and sublicenses.

Available Information. The Company's Annual Report to Stockholders for fiscal 2011, includes its Annual Report on Form 10-K. The Annual Report will be mailed to security holders together with the Company's proxy material and solicitation as it relates to the Company's 2011 Annual Meeting of Stockholders. All the Company's reports, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other information filed with, or furnished to, the Securities and Exchange Commission (the "SEC" or the "Commission"), including amendments to such reports, are available on the SEC's website that contains such reports, proxy and information statements, and other information regarding companies that file electronically with the Commission. This information is available at www.sec.gov. In addition, all the Company's public filings can be accessed through the Company's website at http://scientificindustries.com/stockfinancialinfo.html.

Item 1A. Risk Factors.

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, important risk factors are identified below that could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to such future periods in any current statements. The Company undertakes no obligation to publicly revise any forward-looking announcements to reflect future events or circumstances.

Dependence on a Major Customer

The laboratory equipment industry is dominated in the U.S. by two major laboratory equipment distributors, one of which, is the Company's largest customer for the Company's Benchtop Laboratory Equipment products. Sales to this customer, accounted for 14.6% and 14.5%, respectively, of the sales of the Benchtop Laboratory Equipment Operations for fiscal 2011 and fiscal 2010.

No representation can be made that the Company will be successful in continuing to retain this customer, the loss of which could have an adverse effect on future operating results of the Company.

One Benchtop Laboratory Equipment Product Accounts for a Substantial Portion of Revenues

The Company has a limited number of Benchtop Laboratory

Equipment products with one product, the Vortex-Genie 2 Mixer, accounting for approximately 68% of Benchtop Laboratory Equipment sales, for both fiscal 2011 and fiscal 2010, and 52% and 41% of total sales for fiscal 2011 and fiscal 2010, respectively.

The Company is a Small Participant in Each of the Industries in Which It Operates

The Benchtop Laboratory Equipment industry is highly competitive. Although the Vortex-Genie 2 Mixer has been widely accepted, the annual sales of the Benchtop Laboratory Equipment products ($4,525,100 for fiscal 2011 and $4,272,700 for fiscal 2010) are significantly lower than the annual sales of many of its competitors in the industry. The principal competitors are substantially larger with much greater financial, production and marketing resources than the Company. There are constant new entrants into the vortex mixer market, including products imported from China.

The production and sale of Catalyst Research Instruments products is highly competitive. Altamira's competitors include several companies with greater resources and many laboratories which produce their own instruments.

The Company's Ability to Grow and Compete Effectively Depends In Part on Its Ability to Develop and Effectively Market New Products

Over the past ten years, the Company has continuously invested in the development and marketing of new Benchtop Laboratory Equipment products with a view to increasing revenues and reducing the Company's dependence on the Vortex-Genie 2 Mixer. Gross revenues derived from new Benchtop Laboratory Equipment products (those other than the Vortex-Genie 2 Mixer) increased to $1,484,000 for fiscal 2011 from $1,389,400, for fiscal 2010. However, the segment's ability to compete will depend upon the Company's success in continuing to develop and market new laboratory equipment as to which no assurance can be given.

The Company relies primarily on distributors and their catalogs to market its Benchtop Laboratory Equipment products, as is customary in the industry. Accordingly, sales of new products are heavily dependent on the distributors' decision to include and retain a new product in the distributors' catalogs and on their websites. It may be at least 24 to 36 months between the completion of development of a product and the distribution of the catalog in which it is first offered, and not all distributors feature the Company's products in their catalogs. In fiscal 2010, the Company hired a new sales manager to bolster its sales efforts in the United States, and in May 2011, the Company engaged a consultant overseas as its European Sales Manager.

The Company's Catalyst Research Instruments line of products consists of only a few products. The ability of the

Company to compete in this segment and expand the line will depend on its ability to make engineering improvements to existing products and develop and add new products incorporating more current technology. Over the last two years the Company has introduced two new catalyst research products to increase its product offerings and has continuously looked to expand its outside sales force.

No assurance can be given that the amounts allocated by the Company for its new product development and sales and marketing programs will be sufficient to develop additional commercially feasible products or that distributors will include or retain any particular product in their catalogs and websites.

The Company May Be Subject to General Economic, Political, and Social Factors

Orders for the Company's products, particularly its Catalyst Research Instruments products, depend in part, on the customer's ability to secure funds to finance purchases. Availability of funds can be affected by budgetary constraints. Factors such as a general economic recession, such as the one which commenced in fiscal 2009 and negatively affected the Company in fiscal 2011, or major terrorist attack could have a negative impact on the availability of funding including government or academic grants to potential customers.

The Company's ability to secure new Catalyst Research Instruments orders can also be affected by changes in domestic and international policies pertaining to energy and the environment, which could affect funding of potential customers.

The Company is Heavily Dependent on Outside Suppliers for the Components of Its Products

The Company purchases all its components from outside suppliers and relies on a few single suppliers for certain of its Benchtop Laboratory Equipment products, including the Vortex-Genie 2, mostly due to cost considerations. To reduce the risk of component shortages, the Company maintains higher than normal inventories of such components. Many of the Company's suppliers, including United States vendors, produce the components directly or indirectly in overseas factories, and orders are subject to long lead times and potential other risks related to production in a foreign country. To minimize the risk of supply shortages, the Company keeps more than normal quantities on hand of the critical components that cannot easily be procured or, where feasible and cost effective, purchases are made from more than one supplier.

The Company's Ability to Compete Depends in Part on Its Ability To Secure and Maintain Proprietary Rights to its Products

The Company has no patent protection for its principal Laboratory Equipment products, the Vortex-Genie 2 Mixer, and Catalyst Research products and limited patent protection on a few other Benchtop Laboratory Equipment products. There are several competitive products available in the marketplace possessing similar technical specifications and design. The Company does not have any patent protection for any of its Catalyst Research Instruments products.

If the proposed acquisition of the License and sublicenses under the UMBC patent is successfully consummated, the Company's ability to conduct business in the related business will depend on the ability of the Company and the Licensor to maintain validity and enforceability of the related patent and to obtain related foreign patents.

There can be no assurance that any patent issued or licensed to the Company provides or will provide the Company with competitive advantages or will not be challenged by third parties. Furthermore, there can be no assurance that others will not independently develop similar products or design around the patents. Any of the foregoing activities could have a material adverse effect on the Company. Moreover, the enforcement by the Company of its patent or license rights may require substantial litigation costs.

The Company Has Limited Management Resources

The loss of the services of any of Ms. Helena Santos, the Company's Chief Executive and Financial Officer and President, Mr. Robert Nichols, the Company?s Executive Vice President and Mr. Brookman March, President of Altamira, or any material expansion of the Company's operations could place a significant additional strain on the Company?s limited management resources and could be materially adverse to the Company's operating results and financial condition.

The Common Stock of the Company is Thinly Traded and is Subject to Volatility

As of August 19, 2011, there were only 1,196,577 shares of Common Stock of the Company outstanding, of which 331,772 shares (28%) were held by the directors and officers of the Company. The Common Stock of the Company is traded on the Over-the-Counter Bulletin Board and, historically, has been thinly traded. There have been a number of trading days during fiscal 2011 on which no trades of the Company's Common Stock were reported. Accordingly, the market price for the Common Stock is subject to great volatility.

Item 2. Properties.

The Company's executive offices and principal manufacturing facility for its Benchtop Laboratory Equipment Operations comprise approximately 25,000 square feet, are located in Bohemia, New York and held pursuant to a lease expiring in January 2015. The Company's Catalyst Research Instruments Operations are conducted from an approximately 6,600 square foot facility in Pittsburgh, Pennsylvania held pursuant to lease. The Company is negotiating an extension of the lease term which expired on July 31, 2011. See Note 9 to the Financial Statements in Item 8. The leased facilities are suitable and adequate for each of the Company's operations. In the opinion of management, all properties are adequately covered by insurance.

Item 3. Legal Proceedings.

The Company is not a party to any pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2011.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock is traded in the over-the-counter market. The following table sets forth the low and high bid quotations for each quarter of fiscal 2010 and fiscal 2011, as reported by the National Association of Securities Dealers, Inc. Electronic Bulletin Board. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions:

For Fiscal Quarter Ended:	Low Bid	High Bid
09/30/09	$1.71	$2.78
12/31/09	2.63	3.00
03/31/10	2.63	3.37
06/30/10	2.61	3.36
09/30/10	2.56	3.40
12/31/10	2.85	3.25
03/31/11	3.05	3.30
06/30/11	3.15	3.55

(a) As of August 24, 2011, there were 432 record holders of the Company's Common Stock.

(b) On December 15, 2010, the Company paid a cash dividend of $.09 per share to stockholders of record on October 18, 2010. On December 21, 2009, the Company paid a cash dividend of $.06 per share to stockholders of record on October 23, 2009. The Company is not subject to any agreement which prohibits or restricts the Company from paying dividends on its Common Stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking statements. 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, success of marketing strategy, success of expansion efforts, impact of competition, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control, which are discussed elsewhere in this report. Consequently, no forward-looking statement can be guaranteed. The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and the related notes included elsewhere in this report.

Overview. The Company's income before income taxes decreased to $307,200 for fiscal 2011 compared to $777,600 for fiscal 2010, mainly the result of substantially reduced sales of catalyst research instruments, which the Company believes was the result from the negative general economic conditions since the end of calendar year 2008. Due to the nature of the catalyst research instruments business whereby it can take up to 60 months for an order to materialize, their business cycles tend to lag the overall economy. Although customer inquiries and resulting quotations are at a high level, there is still uncertainty as to future sales of catalyst research instruments due to the continued economic uncertainty. Strategically, the Company is focusing on non-Government customers and emerging markets such as China, India and Brazil. The Company continues to monitor global economic uncertainties and other risks that may affect its business, however, it cannot predict with certainty the magnitude or duration of the impact.

Results of Operations. Net sales for fiscal 2011 decreased by $1,200,300 (17.0%) to $5,869,800 as compared with $7,070,100 for fiscal 2010. Net sales of Benchtop Laboratory Equipment products increased by $252,400 (5.9%), the result of increased sales to U.S. and overseas customers. Net sales of Catalyst Research Instruments products decreased by $1,452,700 (51.9%) due to a decrease in orders resulting from a lack of customer funding. Sales of this segment?s products are comprised of a small number of large orders, typically averaging more than $100,000 each. As of June 30, 2011, the order backlog for Catalyst Research Instrument products was $424,600, all of which the Company anticipates filling by September 30, 2011, compared with $454,000 as of June 30, 2010.

The gross profit percentage for fiscal 2011 increased to 41.0% compared to 38.8% for fiscal 2010, due primarily to sales mix of the operating segments and slightly higher margins for the Benchtop Laboratory Equipment Operations.

General and administrative expenses for fiscal 2011 increased by $76,900 (7.0%) to $1,175,100 compared to $1,098,200 for fiscal 2010, primarily the result of an increase in expenses incurred to investigate potential business opportunities in fields other than those of the two segments.

Selling expenses for fiscal 2011 increased by $84,400 (15.2%) to $638,500 from $554,100 for fiscal 2010, primarily due to an increase in sales commissions paid to independent sales representatives and travel expenses by the Catalyst Research Instruments Operations.

Research and development expenses decreased by $19,400 (5.6%) to $324,400 compared to $343,800 for fiscal 2010, primarily the result of lower cost new product development projects by the Catalyst Research Instruments Operations.

Other income increased by $2,500 (7.4%) to $36,400 for fiscal 2011 from $33,900 for fiscal 2010, primarily because of subrental income earned by the Benchtop Laboratory Equipment Operations.

The lower income tax expense for fiscal 2011 of $79,600 compared to $237,900 for fiscal 2010 was due to lower income.

As a result of the foregoing, net income for fiscal 2011 was $227,600, a decrease of $312,100 (57.8%) from $539,700 for fiscal 2010.

Liquidity and Capital Resources. Cash and cash equivalents increased by $275,100 (43.5%) to $907,800 as of June 30, 2011 from $632,700 as of June 30, 2010.

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Net cash provided by operating activities was $652,500 for fiscal 2011 as compared to $115,300 for fiscal 2010, due mainly to the higher collection of accounts receivable balances. Cash used in investing activities increased from $154,500 to $269,700, primarily due to the higher amount of additional consideration paid for the last payment period for the acquisition of Altamira and purchases of new factory equipment. Cash used in financing activities increased to $107,700 for fiscal 2011 from $66,500 for fiscal 2010 mainly due to the higher cash dividend paid in fiscal 2011.

The Company's working capital of $3,724,000 as of June 30, 2011 increased by $211,300 (6.0%) from the working capital of $3,512,700 as of June 30, 2010, primarily the result of operating income and the lesser contingent consideration for the acquisition of Altamira Instruments, Inc., payment of which ended in November 2010.

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, to bear interest at 3.08 percentage points above the LIBOR Index, which was approximately 3.25% at June 30, 2011 and 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 September 9, 2011, no borrowings under the line have been made.

Management believes that the Company will be able to meet, absent a material capital expenditure, its cash flow needs including those it expects to incur if the proposed acquisition of the bioprocessing License and sublicenses is successfully consummated, during the 12 months ending June 30, 2012 from its available financial resources including its cash and investment securities, and operations.

Capital Expenditures. During fiscal 2011, the Company incurred $63,600 in capital expenditures. The Company expects that based on its current operations, its capital expenditures will not be materially higher for the fiscal year ending June 30, 2012, except for payments to be made in connection with the acquisition, if consummated, of the bioprocessing License and sublicenses.

Off-Balance Sheet Arrangements. None.

Item 8. Financial Statements and Supplementary Data.

The Financial Statements required by this item are attached hereto on pages F1-F21.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this Annual Report on Form 10-K, 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.

Management's Annual Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f) and 15d-15(f). The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Chief Executive and Chief Financial Officer of the Company conducted an evaluation of the effectiveness of the Company's internal controls over financial reporting as of June 30, 2011 based on the criteria set forth by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) in Internal Control - Integrated Framework.

Based on the assessment of the Company's Chief Executive and Chief Financial Officer of the Company, it was concluded that as of June 30, 2011, the Company's internal controls over financial reporting were effective based on these criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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 recent fiscal quarter that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

Inherent Limitations on Effectiveness of Controls. The Company's management, including its Chief Executive and Chief Financial Officer, believes that its disclosure controls and procedures and internal controls over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, management does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

Following the death in July 2011 of Mr. Joseph I. Kesselman, a Director, the Board of Directors in September 2011 set five as the number of Directors of the Company.

The Company has the following five Directors:

Joseph G. Cremonese (age 75), a Director since November 2002 and Chairman of the Board since February 2006, has been a marketing consultant to the Company since 1996. Mr. Cremonese has been since 1991, President of Laboratory Innovation Company, Ltd., which is a vehicle for technology transfer and consulting services for companies, including the Company, engaged in the production and sale of products for science and biotechnology. Since March 2003, he has been a director of Proteomics, Inc., a producer of recombinant proteins for medical research. Prior to 1991, he had been employed by Fisher Scientific, the largest U.S. distributor of laboratory equipment.

Roger B. Knowles (age 86), a Director since 1965, is retired. During the past five years he had been, although not currently, involved in liquidating various real estate and manufacturing concerns.

Grace S. Morin (age 63), a Director since December 4, 2006, had been President, Director and principal stockholder of Altamira Instruments, Inc. from December 2003 until its acquisition in November 2006 by the Company. Ms. Morin had been employed by Altamira to supervise its administrative functions at the Pittsburgh, Pennsylvania facility as a full-time employee through March 31, 2009 and since that date as a part-time consultant. Prior to December 2003, she was a general business consultant for two years, and prior thereto a member of senior management of a designer of gas flow environmental engineered products for approximately four years.

Helena R. Santos (age 47), a Director since 2009, has been employed by the Company since 1994, and has served since August 2002 as its President, Chief Executive Officer and Treasurer. She had served as Vice President, Controller from 1997 and as Secretary from May 2001. Ms. Santos was an internal auditor with a major defense contractor from March 1991 to April 1994. She had been previously employed in public accounting.

James S. Segasture (age 75), a Director since 1991, has been a private investor since February 1990.

The Directors are elected to three-year staggered terms. The current terms of the Directors expire at the annual meeting of stockholders of the Company following: the fiscal year ending June 30, 2011 - two Directors (Messrs. Cremonese and Knowles, Class C), the fiscal year ending June 30, 2012 - two Directors (Ms. Santos and Mr. Segasture, Class A), and the fiscal year ending June 30, 2013 - one director (Ms. Morin).

Board Committees

Mr. Joseph I. Kesselman had been until his death in July 2011 a member of the Stock Option Committee and the Compensation Committee.

James S. Segasture is currently the sole member of the Company's Stock Option Committee, which administers the Company's 2002 Stock Option Plan ("2002 Plan"). The members of the Committee serve at the discretion of the Board.

Grace S. Morin, and James S. Segasture are the current members of the Company's Compensation Committee serving at the discretion of the Board. The Committee administers the Company's compensation policies.

The Board of Directors acts as the Company's Audit Committee.

The Company does not have a financial expert on the Audit Committee as defined by the Securities and Exchange Commission, however, the Company believes that the members have sufficient knowledge to properly evaluate and analyze the Company's financial statements.

Executive Officers

Helena R. Santos, CPA (age 47), employed by the Company since 1994, has served since August 2002 as President, Chief Executive Officer and Treasurer. See "Directors" for additional background information.

Robert P. Nichols (age 50), employed by the Company since February 1998, has served since August 2002 as Executive Vice President. Previously, he had been since May 2001 Vice President, Engineering. Prior to joining the Company, Mr. Nichols was an Engineer Manager with Bay Side Motion Group, a precision motion equipment manufacturer from January 1996 to February 1998.

Brookman P. March (age 66) has been Director of Sales and Marketing of Altamira, which conducts the Catalyst Research Instruments operation since November 30, 2006 and its President since July 2008. He had been Vice President and a Director of Altamira from December 2003 until it was acquired by the Company. Mr. March is the husband of Ms. Morin, a Director.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company believes that, for fiscal 2011, its officers, directors and 10% stockholders timely complied with all filing requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended.

Code of Ethics

We have adopted a code of ethics that applies to our Executive Officers and Directors. A copy of the code of ethics can be found on our website at www.scientificindustries.com.

Item 11. Executive Compensation.

Compensation Discussion and Analysis. The Compensation Committee reviews and recommends to the Board of Directors the compensation to be paid to each executive officer. In making a determination, the Committee and the Board give material consideration to the Company's results of operations and financial condition, competitive factors and the Company's resources. The compensation at times includes grants of options under its stock option plan to the named executives. Each officer is employed pursuant to a long-term employment agreement, containing terms proposed by the Committee and approved as reasonable by the Board of Directors. The Board is cognizant that as a relatively small company, the Company has limited resources and opportunities with respect to recruiting and retaining key executives. Accordingly, the Company has relied upon long-term employment agreements and grants of stock options to retain qualified personnel.

Compensation for each of its executive officers provided by their employment agreements were based on the foregoing factors and the operating and financial results of the segments under their management.

The following table summarizes all compensation paid by the Company to each of its executive officers for the fiscal years ended June 30, 2011 and 2010.

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Fiscal Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Non-Qualified Deferred Compensation Earnings ($) (h)
Helena R. Santos, CEO, President, CFO	2011	135,000	8,000(1)	0	0	0	0
	2010	131,500	5,000	0	0	0	0

Robert P. Nichols, Exec. V.P.	2011 2010	123,600 121,300	4,400(1 5,000	0 0	0 0	0 0	0 0
Brookman P. March, Director of Sales and Marketing, and President of Altamira	2011 2010	122,650 116,900	5,000(1) 0	0 0	2,900(3) 8,100(3)	0 0	0 0

SUMMARY COMPENSATION TABLE (CONTINUED)

Name and Principal Position (a)	Fiscal Year (b)	Changes in Pension Value and Non-Qualified Deferred Comp-ensation Earnings	All Other Comp-ensation ($) (i)	Total ($) (j)
Helena R. Santos, CEO, President, CFO	2011 2010	0 0	2,900(2) 2,600(2)	145,900 139,100
Robert P. Nichols, Exec. V.P.	2011 2010	0 0	2,600(2) 2,450(2)	130,600 128,700
Brookman P. March, Director of Sales and Marketing, and President of Altamira	2011 2010	0 0	5,100(2) 4,700(2)	135,650 129,700

(1) Represents amounts paid during fiscal 2011 earned for fiscal 2010.

(2) The amounts represent the Company's matching contribution under the Company's 401(k) Plans.

(3) The amounts represent compensation expense for stock options granted valued utilizing the Black-Scholes-Merton options pricing model, disregarding estimates of forfeitures related to service-based vesting considerations. The fiscal 2010 amount includes a 2,000 share stock option granted as a bonus during fiscal 2010 valued at $4,300.

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GRANTS OF PLAN-BASED AWARDS IN FISCAL YEAR ENDED JUNE 30, 2011

There were no options granted to officers during fiscal 2011.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Option Awards					
Name (a)	Number of Securities Under-lying Un-exercised Options (#) Exercisable (b)	Number of Securities Under-lying Unexercised Options (#) Unexerci-sable (c)	Equity Incerntive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)
Robert P. Nichols	5,000	0	0	1.25	10/2012
Brookman P. March	4,833	1,667	0	3.07	11/2014

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Stock Awards				
	Number of Shares or Units of Stock That	Market Value of Shares or Units of Stock That	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That

Name (a)	Have not Vested (#) (g)	Have not Vested ($) (h)	Have not Vested (#) (i)	Have not Vested ($) (j)
Robert P. Nichols	0	0	0	0
Brookman P. March	0	0	0	0

No executive officer exercised any options during fiscal 2011.

Employment Agreements

In September 2011, The Company entered into new employment agreements with Ms. Helena R. Santos and Robert P. Nichols extending their terms of employment to June 30, 2013. The new agreements increased the annual base salaries for the fiscal years ending June 30, 2012 and June 30, 2013, for Ms. Santos from $135,000 for the fiscal year ended June 30, 2011 to $138,000 and $141,000 respectively; and for Mr. Nichols from $123,600 for the fiscal year ended June 30, 2011 to $126,320 and $129,100 respectively. Bonuses, if any, are to be awarded at the discretion of the Board of Directors for each of the fiscal years ending June 30, 2012 and June 30, 2013. For the six month period ended June 30, 2010 and the year ended June 30, 2011, the Board of Directors authorized bonuses of $8,000 and $4,000, respectively for Ms. Santos and $4,400 and $3,000, respectively for Mr. Nichols.

In October 2010, the Company entered into a new employment agreement with Mr. March extending the term through June 30, 2012, which may be further extended by mutual consent for an additional 12 month period. The agreement provides for an annual base salary of $121,900 through November 30, 2010 and $128,000 thereafter. Bonuses, if any, may be awarded at the discretion of the Board of Directors, with respect to services rendered during the twelve months ended November 30, 2010, the seven months ended June 30, 2011, and the twelve months ending June 30, 2012. A bonus of $5,000 was paid to Mr. March during fiscal 2011 as to the twelve month period ended November 30, 2010.

Mr. March is the husband of Grace S. Morin, a Director of the Company and of Altamira and a former principal stockholder of Altamira.

Each of the foregoing employment agreements contains confidentiality and non-competition covenants. The employment agreements for Ms. Santos and Mr. March contain termination provisions stipulating that if the Company terminates the employment other than for death, disability, or cause (defined as (i) conviction of a felony or (ii) gross neglect or gross misconduct (including conflict of interest), the Company shall pay severance payments equal to one year's salary at the rate of the compensation at the time of termination, and continue to pay the regular benefits provided by the Company for a period of two years from termination.

Directors' Compensation and Options

DIRECTORS' COMPENSATION
For the Year Ended June 30, 2011

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)
Joseph G. Cremonese	25,700	0	16,200(2)	0
Joseph Kesselman(1)	12,700	0	0	0
Roger B. Knowles	12,700	0	0	0
Grace S. Morin	12,700	0	0	0
James S. Segasture	12,700	0	0	0

DIRECTORS' COMPENSATION (CONTINUED)

Name (a)	Changes in Pension Value and Non-qualified Deferred Compensation Earnings ($) (f)	Non-qualified Deferred Compensation Earnings ($) (g)	All Other Compensation ($) (h)	Total ($) (i)
Joseph G. Cremonese	0	0	36,000(3)	77,900
Joseph I. Kesselman(1)	0	0	0	12,700
Roger B. Knowles	0	0	0	12,700
Grace S.				

Morin	0	0	9,000(4)	21,700
James S. Segasture	0	0	0	12,700

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(1) Mr. Kesselman died in July 2011.

(2) The amount represents consulting expense recorded in fiscal 2011 for stock options granted in fiscal 2010 and 2011 valued and expensed utilizing the Black-Scholes-Merton options pricing model (see Items 12 and 13).

(3) Represents amount paid to his affiliate pursuant to a marketing consulting agreement (see Items 12 and 13).

(4) Represents compensation received for her administrative services as a consultant for Altamira (see Items 12 and 13).

The Company pays each Director who is not an employee of the Company or a subsidiary a quarterly retainer fee of $1,800 (increased in January 2011 from $1,500) and $1,200 (increased from $1,000 in January 2011) for each meeting attended. In addition, the Company reimburses each Director for out-of-pocket expenses incurred in connection with attendance at board meetings in the amount of $50 or the Director's itemized expenses, whichever is greater. Mr. Cremonese, as Chairman of the Board receives an additional fee of $1,200 (increased in January 2011 from $1,000) per month. During fiscal 2011, the fees to non-employee Directors aggregated $137,700, including the consulting fees paid to Mr. Cremonese's affiliate, and to Ms. Morin.

Pursuant to the Company's 1992 Stock Option Plan ("1992 Plan") options to purchase 3,000 shares of Common Stock at the then fair market value were granted to each non-employee Director who was on the Board of Directors on the first business day of each March, in 1993, 1994, 1995, and 1996, namely Messrs. Borden, Kesselman, Knowles and Segasture. In addition, in December 1997 and through December 2001 the Board of Directors granted under the 1992 Plan annually options to purchase 4,000 shares of Common Stock to each of them exercisable at the fair market value on the date of grant. Accordingly, as of June 30, 2011, the Company had granted under the 1992 Plan to the foregoing four non-employee Directors options to purchase an aggregate of 128,000 shares of Common Stock, or options to purchase 32,000 shares of Common Stock to each. The fair market value per share of Common Stock on the dates of grant ranged from $0.50 for options granted in 1993 to $2.40 in 2001. As of June 30, 2011, options under the 1992 Plan with respect to 94,000 shares had been exercised by the Directors and with respect to 22,000 shares had expired. In addition, they had exercised options with respect to 48,000 shares granted to them prior to the adoption of the 1992 Plan.

Under the Company's 2002 Plan, none of the Directors at the time of the adoption by the Board of Directors of the 2002 Plan (subsequently approved by stockholders) were eligible to receive option grants thereunder. Mr. Joseph G. Cremonese who was elected a Director at the 2002 Annual Meeting of Stockholders, was granted ten year options on December 1, 2003 to purchase 5,000 shares of Common Stock at the fair market value of $1.35 per share, on February 20, 2007 to purchase 5,000 shares of Common Stock at the fair market value of $3.10 per share, and five-year options on September 17, 2009 to purchase 10,000 shares at the fair market value of $1.88 per share, and on January 7, 2011 to purchase 10,000 shares at the fair market value of $1.53 per share. The $1.53 option had a total fair value (as determined by the Black-Scholes-Merton option-pricing model) of $15,300 which was all recognized as consulting expense in fiscal 2011. None of the options have been exercised to date.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth, as of June 30, 2011, the number of shares of Common Stock beneficially owned by (i) each person known to the Company to beneficially own more than 5% of the outstanding shares of Common Stock, (ii) each director of the Company, (iii) each named executive officer of the Company, and (iv) all directors and executive officers as a group. Shares not outstanding but deemed beneficially owned by virtue of the right of any individual to acquire shares within 60 days are treated as outstanding only when determining the amount of and percentage of outstanding shares of Common Stock owned by such individual. Each person has sole voting and investment power with respect to the shares shown, except as noted. Except as indicated in the table, the address for each of the following is c/o Scientific Industries, Inc., 70 Orville Drive, Bohemia, New York 11716.

Name	Amount and Nature of Beneficial Ownership	% of Class
Spectrum Laboratories, Inc. 18617 Broadwick Street Rancho Dominquez, CA 90220	127,986 (1)	10.7%
Lowell A. Kleiman 16 Walnut Street Glen Head, NY 11545	139,581 (2)	11.7%
Joseph G. Cremonese	76,597 (3)	6.2%
Estate of Joseph I. Kesselman	64,120 (4)	5.3%
Roger B. Knowles	4,000 (5)	.3%
Grace S. Morin	89,450 (6)	7.4%
James S. Segasture	174,000 (7)	14.5%
Helena R. Santos	15,779	1.3%
Robert P. Nichols	21,446 (8)	1.8%
Brookman P. March	89,450 (9)	7.4%
All directors and executive officers as a group (7 persons)	381,272 (10)	30.6%

(1) Based on information reported on Form 3 filed with the Securities and Exchange Commission on June 27, 2011.
(2) Based on information reported in his Schedule 13D filed with the Securities and Exchange Commission on October 30, 2002.
(3) 46,597 shares are owned jointly with his wife and 30,000 shares are issuable upon exercise of options.
(4) Includes 4,000 shares issuable upon exercise of options, 735 shares owned jointly with his wife, and 16,000 shares owned by his wife.

(5) Represents shares issuable upon exercise of options.
(6) Includes 6,500 shares issuable upon exercise of options held by her husband.
(7) Includes 4,000 shares issuable upon exercise of options.
(8) Includes 5,000 shares issuable upon exercise of options.
(9) Represents 82,950 shares owned by Ms. Morin, his wife and 6,500 shares issuable upon exercise of options.
(10) Includes 49,500 shares issuable upon exercise of options.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information with respect to Company options, warrants and rights as of June 30, 2011.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ($) (b)
Equity Compensation plans approved by security holders	57,001	2.45
Equity Compensation plans not approved by security holders	N/A	N/A
Total	57,001	2.45

EQUITY COMPENSATION PLAN INFORMATION (CONTINUED)

Plan Category	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a) (c)
Equity Compensation plans approved by security holders	91,334

Equity Compensation plans not approved by security holders	N/A
Total	91,334

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Mr. Joseph G. Cremonese, a Director since November 2002, through his affiliate, Laboratory Innovation Company, Ltd., has been providing independent marketing consulting services to the Company for over ten years. The services have been rendered since January 1, 2003 pursuant to a consulting agreement which was extended in January, 2011 through December 31, 2011. The agreement as amended and restated currently provides that Mr. Cremonese and his affiliate shall render, at the request of the Company, marketing consulting services of at least 60, but not more than 96, days per year at the rate of $600 per day with a monthly payment of $3,000, with the Company's obligation reduced to the extent the consulting services are less than 60 days for the 12 month period. The agreement contains confidentiality and non-competition covenants. The Company paid pursuant to the agreement $36,000 for each of fiscal 2011 and fiscal 2010.

Ms. Grace S. Morin, was elected a Director in December 2006 upon the sale of her 90.36% ownership interest in Altamira to the Company in November 2006. Under the purchase agreement Ms. Morin received (in addition to $361,000 in cash paid and an aggregate of 112,950 shares of the Company's Common Stock issued at the time of acquisition) an amount equal to a 90.36% share of 5% of net sales of Altamira for each of five designated periods, subject to possible adjustment. Accordingly, she received $59,700 for the period which ran from December 1, 2006 through June 30, 2007, $131,000 for the year ended June 30, 2008; $97,000 for the year ended June 30, 2009; $126,400 for the year ended June 30, 2010; and $38,000 for the five months ended November 30, 2010. She also received in fiscal 2008 $36,400 as reimbursement for the Company's treatment of the transaction as a purchase of assets for tax purposes.

Up until March 31, 2009, Ms. Morin had been employed by Altamira as an administrative employee. Since April 1, 2009, she provides consulting services on a part-time basis pursuant to an agreement expiring March 31, 2012 at the rate of $85 per hour, resulting in a payment of $9,000 for fiscal 2011. The agreement contains confidentiality and non-competition covenants.

Item 14. Principal Accountant Fees and Services.

The Company incurred for the services of Nussbaum Yates Berg Klein & Wolpow, LLP for fiscal 2011 and fiscal 2010: audit fees of approximately $54,000 and $52,500, respectively, in connection with the audit of the Company's annual financial statements and quarterly reviews; and $5,000 for each fiscal year for the preparation of the Company's corporate tax returns. There were no other audit related fees or other fees paid to the firm for the two fiscal years.

In approving the engagement of the independent registered public accounting firm to perform the audit and non-audit services, the Board of Directors as the Company's audit committee evaluates scope and cost of each of the services to be performed including a determination that the performance of the non-audit services will not affect the independence of the firm in the performance of the audit services.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

Financial Statements and Financial Statement Schedules. The required financial statements of the Company are attached hereto on pages F1-F21.

Exhibits. The following Exhibits are filed as part of this report on Form 10-K:

Exhibit Number	Exhibit
3	Articles of Incorporation and By-Laws:

3(a) Certificate of Incorporation of the Company as amended. (Filed as Exhibit 1(a-1) to the Company's General Form for Registration of Securities on Form 10 dated February 14, 1973 and incorporated by reference thereto.)

3(b) Certificate of Amendment of the Company's Certificate of Incorporation, as filed on January 28, 1985. (Filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1985 and incorporated by reference thereto.)

3(c) By-Laws of the Company, as restated and amended. (Filed as Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on January 6, 2003 and Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on December 5, 2007 and incorporated by reference thereto).

4 Instruments defining the rights of security holders:

4(a) 2002 Stock Option Plan (Filed as Exhibit 99-1 to the Company's Current Report on Form 8-K filed on November 25, 2002 and incorporated by reference thereto.

10 Material Contracts:

10(a) Lease between Registrant and AIP Associates, predecessor-in-interest of current lessor, dated October, 1989 with respect to Company's offices and facilities in Bohemia, New York.

(Filed as Exhibit 10(a) to the Company's Form 10-KSB filed on September 28, 2005 and incorporated by reference thereto).

10(a)-1 Amendment to lease between Registrant and REP A10 LLC, successor in interest of AIP Associates, dated September 1, 2004 (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on September 2, 2004, and incorporated by reference thereto).

10(a)-2 Second amendment to lease between Registrant and REP A10 LLC dated November 5, 2007. (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on November 8, 2007, and incorporated by reference thereto).

10(b) Employment Agreement dated January 1, 2003, by and between the Company and Ms. Santos (Filed as Exhibit 10(a) to the Company's Current Report on Form 8-K filed on January 22, 2003, and incorporated by reference thereto).

10(b)-1 Employment Agreement dated September 1, 2004, by and between the Company and Ms. Santos (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on September 1, 2004, and incorporated by reference thereto).

10(b)-2 Employment Agreement dated December 29, 2006, by and between the Company and Ms. Santos (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on December 29, 2006, and incorporated by reference thereto).

10(b)-3 Employment Agreement dated July 31, 2009 by and between the Company and Ms. Santos (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on August 7, 2009, and incorporated by reference thereto).

10(b)-4 Employment Agreement dated May 14, 2010 by and between the Company and Ms. Santos (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on May 18, 2010, and incorporated by reference thereto).

10(b)-5 Employment Agreement dated September 13, 2011 by and between the Company and Ms. Santos.

10(c) Employment Agreement dated January 1, 2003, by and between the Company and Mr. Robert P. Nichols (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on January 22, 2003, and incorporated by reference thereto).

10(c)-1 Employment Agreement dated September 1, 2004, by and between the Company and Mr. Nichols (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on September 1, 2004, and incorporated by reference thereto).

10(c)-2 Employment Agreement dated December 29, 2006, by and between the Company and Mr. Nichols (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on December 29, 2006, and incorporated by reference thereto).

10(c)-3 Employment Agreement dated July 31, 2009 by and between the Company and Mr. Nichols (filed as Exhibit 10A-2 to the Company's Current Report on Form 8-K filed on August 7, 2009, and incorporated by reference thereto).

10(c)-4 Employment Agreement dated May 14, 2010 by and between the Company and Mr. Nichols (filed as Exhibit 10A-2 to the Company's Current Report on Form 8-K filed on May 18, 2010, and incorporated by reference thereto).

10(c)-5 Employment Agreement dated September 13, 2011 by and between the Company and Mr. Nichols.

10(d) Consulting Agreement dated January 1, 2003 by and between the Company and Mr. Cremonese and his affiliate, Laboratory Innovation Company, Ltd., (Filed as Exhibit 10(b) to the Company's Current Report on Form 8-K filed on January 6, 2003, and incorporated by reference thereto).

10(d)-1 Amended and Restated Consulting Agreement dated March 22, 2005, by and between the Company and Mr. Cremonese and Laboratory Innovation Company, Ltd., (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on March 23, 2005, and incorporated by reference thereto).

10(d)-2 Second Amended and Restated Consulting Agreement dated March 15, 2007, by and between the Company and Mr. Cremonese and Laboratory Innovation Company Ltd., (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on March 16, 2007, and incorporated by reference thereto).

10(d)-3 Third Amended and Restated Consulting Agreement dated September 23, 2009, by and between the Company and Mr. Cremonese and Laboratory Innovation Company, Ltd., (Filed as exhibit 10 to the Company's Annual Report on Form 10-K field on September 24, 2009, and incorporated by reference thereto).

10(d)-4 Fourth Amended and Restated Consulting Agreement dated January 7, 2011 (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on January 18, 2011, and incorporated by reference thereto).

10(e) Sublicense from Fluorometrix Corporation (Filed as Exhibit 10(a)1 to the Company's Current Report on Form 8-K filed on June 14, 2006, and incorporated by reference thereto).

10(f) Stock Purchase Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(g) Escrow Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William

D. Chandler (filed as Exhibit 10(a) to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(h) Registration Rights Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (filed as Exhibit 10(b) to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(i) Employment Agreement, dated as of November 30, 2006, between Altamira Instruments, Inc. and Brookman P. March (Filed as Exhibit 10(c) to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(i)-1 Employment Agreement, dated as of October 30, 2008, between Altamira Instruments, Inc. and Brookman P. March (Filed as Exhibit 10A-2 to the Company's Current Report on Form 8-K filed on October 30, 2008, and incorporated by reference thereto).

10(i)-2 Employment Agreement, dated as of October 1, 2010, between Altamira Instruments, Inc., and Brookman P. March (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on October 13, 2010, and incorporated by reference thereto).

10(j) Indemnity Agreement, dated as of April 13, 2007 by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (Filed as Exhibit 10(j) to the Company's Form 10-KSB filed on September 28, 2007 and incorporated by reference thereto).

10(k) Lease between Altamira Instruments, Inc. and Allegheny Homes, LLC, with respect to the Company's Pittsburgh, Pennsylvania facilities (Filed as Exhibit 10(k) to the Company's Form 10-KSB filed on September 28, 2007 and incorporated by reference thereto).

10(l) Line of Credit Agreements dated October 30, 2008, by and among the Company and Capital One, N.A. (Filed as Exhibits 10-A1(a) through (f) to the Company's Current Report on Form 8-K filed on October 30, 2008, and incorporated by reference thereto).

10(l)-1 Restated Promissory Note Agreement dated January 20, 2010 by and among the Company and Capital One N.A. (Filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 20, 2010, and incorporated by reference thereto).

10(l)-2 Restated Promissory Note Agreement dated January 5, 2011 by and among the Company and Capital One N.A. (Filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 6, 2011, and incorporated by reference thereto).

10(m) Consulting Agreement dated April 1, 2009 by and between the Company and Grace Morin (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on April 1, 2009, and incorporated by reference thereto).

10(n) Line of Credit Agreements dated June 14, 2011, by and among the Company and JPMorgan Chase Bank, N.A. (Filed as Exhibits 99.1 through 99.3 (to the Company's Current Report on Form 8-K filed on June 16, 2011, and incorporated by reference thereto).

14 Code of Ethics (Filed as Exhibit 14 to the Company's Form 10-KSB filed on September 28, 2007 and incorporated by reference thereto).

21 Subsidiaries of the Registrant

Scientific Packaging Industries, Inc., a New York corporation, is a wholly-owned inactive subsidiary of the Company.

Altamira Instruments, Inc., a Delaware Corporation, is a wholly-owned subsidiary of the Company since November 30, 2006.

31.01 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

32.01 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCIENTIFIC INDUSTRIES, INC.
(Registrant)

/s/ Helena R. Santos
____

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

Date: September 16, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Helena R. Santos	President and Treasurer	September 16, 2011

Helena R. Santos	(Chief) Executive Officer and Financial Officer) and Director	
/s/ Joseph G. Cremonese Joseph G. Cremonese	Chairman of the Board	September 16, 201
/s/ Roger B. Knowles Roger B. Knowles	Director	September 16, 2011
/s/ Grace S. Morin Grace S. Morin	Director	September 16, 2011
/s/ James S. Segasture James S. Segasture	Director	September 16, 2011

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SCIENTIFIC INDUSTRIES, INC.
AND SUBSIDIARIES

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

AS OF AND FOR THE
YEARS ENDED JUNE 30, 2011 AND 2010

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

CONTENTS

Consolidated financial statements:

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Scientific Industries, Inc.
Bohemia, New York

We have audited the accompanying consolidated balance sheets of Scientific Industries, Inc. and subsidiaries as of June 30, 2011 and 2010, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scientific Industries, Inc. and subsidiaries as of June 30, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Nussbaum Yates Berg Klein & Wolpow, LLP

Nussbaum Yates Berg Klein & Wolpow, LLP
Melville, New York

September 16, 2011

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 907,800	$ 632,700
Investment securities	693,400	665,600
Trade accounts receivable, less allowance for doubtful accounts of $11,600 in 2011 and 2010	620,000	1,494,500
Inventories	1,639,800	1,272,600
Prepaid and other current assets	197,700	87,200
Deferred taxes	77,700	73,800
Total current assets	4,136,400	4,226,400
Property and equipment, net	175,100	193,400
Intangible assets, net	112,300	214,200
Goodwill	447,900	405,200
Other assets	25,700	25,700
Deferred taxes	115,800	100,100
Total assets	$5,013,200	$5,165,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 128,100	$ 227,700
Accrued expenses and taxes	284,300	486,000
Total current liabilities	412,400	713,700
Shareholders' equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; issued 1,216,379 shares in 2011 and 2010	60,800	60,800
Additional paid-in capital	1,558,500	1,537,200
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(21,500)	(29,800)
Retained earnings	3,055,400	2,935,500
	4,653,200	4,503,700
Less common stock held in treasury at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	4,600,800	4,451,300
Total liabilities and shareholders' equity	$5,013,200	$5,165,000

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIDARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Net sales	$5,869,800	$7,070,100
Cost of sales	3,461,000	4,330,300
Gross profit	2,408,800	2,739,800
Operating expenses:		
General and administrative	1,175,100	1,098,200
Selling	638,500	554,100

Research and development	324,400	343,800
	2,138,000	1,996,100
Income from operations	270,800	743,700
Other income:		
Interest income	21,900	23,400
Other income	14,500	10,500
	36,400	33,900
Income before income taxes	307,200	777,600
Income tax expense (benefit):		
Current	104,500	280,100
Deferred	(24,900)	(42,200)
	79,600	237,900
Net income	$ 227,600	$ 539,700
Basic earnings per common share	$ .19	$ .45
Diluted earnings per common share	$ .19	$ .45
Weighted average common shares outstanding, basic	1,196,577	1,196,051
Weighted average common shares outstanding, assuming dilution	1,213,482	1,211,895

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	Common Stock		Additional Paid-in	Accumulated Other Compr-
	Shares	Amount	Capital	ehensive Loss
Balance, July 1, 2009	1,212,379	$60,600	$1,514,300	$ (79,600)
Net income	-	-	-	-
Other comprehensive income: Unrealized holding gain on investment securities, net of tax	-	-	-	49,800
Comprehensive income	-	-	-	-

Exercise of stock options	4,000	200	5,100	-
Stock-based compensation	-	-	17,400	-
Income tax benefit of stock options exercised	-	-	400	-
Cash dividend paid, $.06 per share	-	-	-	-
Balance, June 30, 2010	1,216,379	60,800	1,537,200	(29,800)
Net income	-	-	-	-
Other comprehensive income: Unrealized holding gain on investment securities, net of tax	-	-	-	8,300
Comprehensive income	-	-	-	-
Stock-based compensation	-	-	21,300	-
Income tax benefit of stock options exercised	-	-	-	-
Cash dividend paid, $.09 per share	-	-	-	-
Balance, June 30, 2011	1,216,379	$60,800	$1,558,500	$ (21,500)

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

YEARS ENDED JUNE 30, 2011 AND 2010

	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Shareholders' Equity
Balance, July 1, 2009	$2,467,600	19,802	$52,400	$3,910,500
Net income	539,700	-	-	539,700
Other comprehensive loss: Unrealized holding loss on investment securities, net of tax	-	-	-	49,800
Comprehensive income	-	-	-	589,500
Exercise of stock options	-	-	-	5,300

Stock-based compensation	-	-	-	17,400
Income tax benefit of stock options exercised	-	-	-	400
Cash dividend paid, $.06 per share	(71,800)	-	-	(71,800)
Balance, June 30, 2010	2,935,500	19,802	52,400	4,451,300
Net income	227,600	-	-	227,600
Other comprehensive income: Unrealized holding gain on investment securities, net of tax	-	-	-	8,300
Comprehensive income	-	-	-	235,900
Stock-based compensation	-	-	-	21,300
Cash dividend paid, $.09 per share	(107,700)	-	-	(107,700)
Balance, June 30, 2011	$3,055,400	19,802	$52,400	$4,600,800

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating activities:		
Net income	$ 227,600	$ 539,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	188,400	197,600
Deferred income tax benefit	(24,900)	(42,200)
Income tax benefit of stock options exercised	-	400
Loss on disposal of asset	4,600	-
Stock-based compensation	21,300	17,400
Changes in operating assets and		

liabilities:		
Trade accounts receivable	874,500	(687,800)
Inventories	(367,200)	325,400
Prepaid and other current assets	(110,500)	4,400
Accounts payable	(99,600)	90,300
Customer advances	-	(359,600)
Accrued expenses and taxes	(61,700)	29,700
Total adjustments	424,900	(424,400)
Net cash provided by operating activities	652,500	115,300
Investing activities:		
Additional consideration for acquisition of Altamira Instruments, Inc.	(182,600)	(107,000)
Purchase of investment securities, available for sale	(14,000)	(14,500)
Capital expenditures	(63,600)	(27,900)
Purchase of intangible assets	(9,500)	(5,100)
Net cash used in investing activities	(269,700)	(154,500)
Financing activities:		
Proceeds from exercise of stock options	-	5,300
Cash dividend paid	(107,700)	(71,800)
Net cash used in financing activities	(107,700)	(66,500)
Net increase (decrease) in cash and cash equivalents	275,100	(105,700)
Cash and cash equivalents, beginning of year	632,700	738,400
Cash and cash equivalents, end of year	$ 907,800	$ 632,700
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 298,500	$ 301,200

See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies

Nature of Operations

Scientific Industries, Inc. and its subsidiaries (the "Company") design, manufacture, and market a variety of benchtop laboratory equipment and catalyst research instruments. The Company is headquartered in Bohemia, New York where it produces benchtop laboratory equipment for research and has another location in Pittsburgh, Pennsylvania, where it produces a variety of custom-made catalyst research instruments. The equipment sold by the Company includes mixers, shakers, stirrers, refrigerated incubators, catalyst characterization instruments, reactor systems and high throughput systems.

Principles of Consolidation

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

Revenue Recognition

Revenue is recognized when all the following criteria are met:

* Receipt of a written purchase order agreement which is binding on the customer.
* Goods are shipped and title passes.
* Prices are fixed.
* Collectability is reasonably assured.
* All material obligations under the agreement have been substantially performed.

Substantially all orders are F.O.B. shipping point, all sales are final without right of return or payment contingencies, and there are no special sales arrangements or agreements with any customers.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of 90 days or less to be cash equivalents.

On November 9, 2010, the Federal Deposit Insurance Company ("FDIC") issued a Final Rule providing unlimited insurance coverage of non-interest bearing transaction accounts, regardless of balance, for the period December 31, 2010 through December 31, 2012. At June 30, 2011, the Company held approximately $182,800 of its cash in non-interest bearing accounts. The remainder of its cash balance is subject to FDIC insurance limits.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

In order to record the Company's accounts receivable at their net realizable value, the Company must assess their collectability. A considerable amount of judgment is required in order to make this assessment, including an analysis of historical bad debts and other adjustments, a review of the aging of the Company's receivables, and the current creditworthiness of the Company's customers. The Company has recorded allowances for receivables which it considered uncollectible, including amounts for the resolution of potential credit and other collection issues such as disputed invoices, customer satisfaction claims and pricing discrepancies. However, depending on how such potential issues are resolved, or if the financial condition of any of the Company's customers was to deteriorate and its ability to make required payments became impaired, increases in these allowances may be required. The Company actively manages its accounts receivable to minimize credit risk. The Company does not obtain collateral for its accounts receivable.

Customer Advances

In the ordinary course of business, customers of Altamira may make advance payments for purchase orders issued to Altamira. Such amounts, when received, are categorized as liabilities under the caption customer advances.

Investment Securities

Securities available for sale are carried at fair value with unrealized gains or losses reported in a separate component of shareholders' equity. Realized gains or losses are determined based on the specific identification method.

Inventories

Inventories are valued at the lower of cost (determined on first in, first out basis) or market value, and have been reduced by an allowance for excess and obsolete inventories. The estimate is based on management's review of inventories on hand compared to estimated future usage and sales. Cost of work-in-process and finished goods inventories include material, labor and manufacturing overhead.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided for primarily by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized by the straight-line method over the term of the related lease or the estimated useful lives of the assets, whichever is shorter.

1. Summary of Significant Accounting Policies (Continued)

Intangible Assets

Intangible assets consist of acquired technology, customer relationships, non-compete agreements, patents, licenses, trademarks and trade names. All intangible assets are amortized on a straight-line basis over 5 years, except for customer relationships which are amortized on an accelerated (declining-balance) basis over their estimated useful lives. The Company continually evaluates the remaining estimated useful lives of intangible assets that are being amortized to determine whether events or circumstances warrant a revision to the remaining period of amortization.

Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of companies acquired. Goodwill and long-lived intangible assets are tested for impairment at least annually in accordance with the provisions of ACS No. 350, "Intangibles-Goodwill and Other" ("ASC No. 350"). ASC No. 350 requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The Company tests goodwill annually as of June 30, the last day of its fourth fiscal quarter, of each year unless an event occurs that would cause the Company to believe the value is impaired at an interim date.

Impairment of Long-Lived Assets

The Company follows the provisions of ASC No. 360-10, "Property, Plant and Equipment - Impairment or Disposal of Long-Lived Assets ("ASC No. 360-10"). ASC No. 360-10 requires evaluation of the need for an impairment charge relating to long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an evaluation for impairment is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write down to a new depreciable basis is required. If required, an impairment charge is recorded based on an estimate of future discounted cash flows.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company and its subsidiaries file a consolidated U.S. federal income tax return. Income taxes are accounted for under the asset and liability method. The Company provides for federal, and state income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attribute to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Advertising

Advertising costs are expensed as incurred. Advertising expense amounted to $26,000 and $21,300 for the years ended June 30, 2011 and 2010.

Stock Compensation Plan

The Company has a ten-year stock option plan (the "2002 Plan") which provides for the grant of options to purchase up to 100,000 shares of the Company's Common Stock, par value $.05 per share ("Common Stock"), plus to the extent that options previously granted under the 1992 Stock Option Plan of the Company (the "Prior Plan") expire or terminate for any reason without having been exercised, then options exercisable for that same number of shares of Common Stock, up to a maximum of one hundred sixty one thousand (161,000) shares, may be granted pursuant to the 2002 Plan. The 2002 Plan provides for the granting of incentive or non-incentive stock options as defined in the 2002 Plan and options under the 2002 Plan may be granted until 2012. Incentive stock options may be granted to employees at an exercise price equal to 100% (or 110% if the optionee owns directly or indirectly more than 10% of the outstanding voting stock) of the fair market value of the shares of Common Stock on the date of the grant. Non-incentive stock options are to be granted at an exercise price not less than 85% of the fair market value of the shares of Common Stock on the date of grant. The 2002 Plan also stipulates that none of the then members of the Board of Directors shall be eligible to receive option grants under the 2002 Plan. The options expire at various dates through September 2018. At June 30, 2011,

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

91,334 shares of Common Stock were available for grant under the 2002 Plan and the Prior Plan.

1. Summary of Significant Accounting Policies (Continued)

Stock Compensation Plan (Continued)

Stock-based compensation is accounted for in accordance with ASC No. 718 "Compensation-Stock Compensation" ("ASC No. 718") which requires compensation costs related to stock-based payment transactions to be recognized. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards are measured at each reporting period. Compensation costs are recognized over the period that an employee provides service in exchange for the award. During the years ended June 30, 2011 and 2010, the Company granted 12,000 and 16,500 options that had a fair value of $19,900 and $20,500, respectively, to employees and consultants. The fair value of the options granted during fiscal years 2011 and 2010 were determined using the Black-Scholes-Merton option-pricing model. The weighted average assumptions used for fiscal 2011 and 2010, respectively, were an expected life of 6 and 5 years; risk free interest rate of 2.09% and 2.48%; volatility of 73% and 83%; and dividend yield of 3.0% and 3.47%. The weighted-average value per share of the options granted in 2011 and 2010 was $1.66 and $1.25, respectively, and stock-based compensation costs were $21,300 and $17,400 for the years ended June 30, 2011 and 2010, respectively. Stock-based compensation costs related to nonvested awards to be recognized in the future are $3,200 and $3,900 as of June 30, 2011 and 2010, respectively.

The Company did not grant any options or warrants as compensation for goods or services to non-employees, except to a director who was granted 10,000 options that had a fair value of $15,300 and $9,300 in each of the years ended June 30, 2011 and 2010, respectively, for consulting services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The actual results experienced by the Company may differ materially from management's estimates.

Earnings Per Common Share

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

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income," ("ASU No. 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company does not expect that the adoption of ASU 2011-05 will have an impact on its consolidated results of operations, financial condition or cash flows as it only requires a change in the format of our current presentation.

In December 2010, the FASB issued ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This standard requires an entity to disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. ASU No. 2010-29 is effective prospectively for business combinations that occur on or after the beginning of the first annual reporting period beginning after December 15, 2010. The Company does not expect that the adoption of ASU No. 2010-29 will have an impact on its consolidated results of operations, financial condition or cash flows.

2. 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 Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
June 30, 2011:				
Net Sales	$4,525,100	$1,344,700	$ -	$5,869,800
Foreign Sales	2,496,200	663,900	-	3,160,100
Segment Profit	584,400	(313,600)	-	270,800

Segment Assets	2,501,000	1,177,400	1,334,800	5,013,200
Long-Lived Asset Expenditures	39,300	24,300	-	63,600
Depreciation and Amortization	56,000	132,400	-	188,400

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

2. Segment Information and Concentrations (Continued)

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
June 30, 2010:				
Net Sales	$4,272,700	$2,797,400	$ -	$7,070,100
Foreign Sales	2,381,000	201,600	-	2,582,600
Segment Profit	553,200	190,500	-	743,700
Segment Assets	2,091,800	1,828,500	1,244,700	5,165,000
Long-Lived Asset Expenditures	27,900	-	-	27,900
Depreciation and Amortization	59,800	137,800	-	197,600

During the year ended June 30, 2011, one customer accounted for approximately 11% of the Company's total sales.

Certain information relating to the Company's export sales follows:

	2011	2010
Export sales (principally Europe and Asia)	$3,160,100	$2,582,600

3. Fair Value of Financial Instruments

The Financial Accounting Standards Board 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 around fair value and establishes a fair value hierarchy for 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 valuation that require inputs that are both significant to the fair value measurement and unobservable.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

3. Fair Value of Financial Instruments (Continued)

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 June 30, 2011 and 2010 according to the valuation techniques the Company used to determine their fair values:

		Fair Value Measurements Using Inputs Considered as		
	Fair Value at June 30, 2011	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 907,800	$ 907,800	$ -	$ -
Available for sale securities	693,400	693,400	-	-
Total	$1,601,200	$1,601,200	$ -	$ -

		Fair Value Measurements Using Inputs Considered as		
	Fair Value at June 30, 2010	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 632,700	$ 632,700	$ -	$ -
Available for sale securities	665,600	665,600	-	-
Total	$1,298,300	$1,298,300	$ -	$ -

Investments in marketable securities classified as available-for-sale by security type at June 30, 2011 and 2010 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2011:			
Available for sale:			
Equity securities	$ 7,800	$ 13,300	$ 5,500
Mutual funds	707,100	680,100	(27,000)
	$ 714,900	$ 693,400	$ (21,500)

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2010:			
Available for sale:			
Equity securities	$ 7,800	$ 9,600	$ 1,800
Mutual funds	687,600	656,000	(31,600)
	$ 695,400	$ 665,600	$ (29,800)

4. Inventories

	2011	2010
Raw materials	$1,051,300	$ 896,400
Work-in-process	408,200	201,400
Finished goods	180,300	174,800
	$1,639,800	$1,272,600

5. Property and Equipment

	Useful Lives (Years)	2011	2010
Automobiles	5	$ 21,000	$ 21,000
Computer equipment	3-5	123,400	118,400
Machinery and equipment	3-7	542,800	493,400
Furniture and fixtures	4-10	172,500	169,000
Leasehold improvements	3-5	64,100	64,100
		923,800	865,900
Less accumulated depreciation and amortization		748,700	672,500
		$ 175,100	$ 193,400

Depreciation expense was $77,000 and $75,800 for the years ended June 30, 2011 and 2010, respectively.

6. 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 $447,900 and $405,200 at June 30, 2011 and 2010, all of which is deductible for tax purposes. The related agreement provided for contingent payments to the former shareholders based on net sales of the Catalyst Research Instrument Operations subject to certain limits, which were earned and paid. Additional consideration amounted to approximately $42,700 for the five months ended November 30, 2010 (final payment period) and $139,900 for the year ended June 30, 2010.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

6. Goodwill and Other Intangible Assets (Continued)

The components of intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2011:				
Technology	5 yrs.	$300,000	$ 275,000	$ 25,000
Customer relationships	10 yrs.	237,000	177,200	59,800
Non-compete agreement	5 yrs.	102,000	93,500	8,500
Other intangible assets	5 yrs.	139,000	120,000	19,000
		$778,000	$ 665,700	$ 112,300

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2010:				
Technology	5 yrs.	$300,000	$ 215,000	$ 85,000
Customer relationships	10 yrs.	237,000	157,000	80,000
Non-compete agreement	5 yrs.	102,000	73,100	28,900
Other intangible assets	5 yrs.	129,500	109,200	20,300
		$768,500	$ 554,300	$ 214,200

Total amortization expense was $111,400 and $121,800 in 2011 and 2010.

Estimated future intangible assets amortization expense is as follows:

Fiscal Years	
2012	$ 55,500
2013	15,800
2014	12,000
2015	8,400
2016	13,100
Thereafter	7,500
	$ 112,300

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

7. Bank Line of Credit

During the year ended June 30, 2011, the Company replaced its existing line of credit with Capital One Bank, N.A. with a new line of credit with JPMorgan Chase Bank, N.A. (the "Bank"), which provides for maximum borrowings of up to $700,000, to bear interest at 3.08 percentage points above a defined LIBOR Index, and 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 Note. The Company did not use the lines during the years ended June 30, 2011 and 2010, respectively.

8. Employee Benefit Plans

The Company has 401(k) profit sharing plans covering its employees, which provide for voluntary employee salary contributions not to exceed the statutory limitations provided by the Internal Revenue Code. One plan provides for Company matching of 50% of each Benchtop Laboratory Equipment Operations participant's salary deferral election, up to a maximum amount for each participant of 2% of their compensation, while the second plan provides for matching the Catalyst Research Instrument Operations employee contributions up to 4% of their compensation. Total employer matching contributions amounted to $39,300 and $44,300 for the years ended June 30, 2011 and 2010, respectively.

9. Commitments and Contingencies

The Company is obligated through January 2015 under a noncancelable operating lease for its Bohemia, New York premises, which requires minimum annual rental payments plus other expenses, including real estate taxes and insurance. In accordance with generally accepted accounting principles, the future minimum annual rental expense, computed on a straight-line basis, is approximately $209,400 under the terms of the lease. Rental expense for the Bohemia facility amounted to approximately $233,700 in 2011 and $229,100 in 2010. Accrued rent, payable in future years, amounted to $67,500 and $66,800 at June 30, 2011 and 2010.

The Company was also obligated under an operating lease for its facility in Pittsburgh, Pennsylvania. The lease, which commenced on August 1, 2006, had a term of five years through July 31, 2011. The lease required monthly minimum rental payments of $4,700 monthly with a Company option to renew for an additional five years. The Company is currently on a month-to-month tenancy while negotiating a new lease agreement. Total rental expense for the Pittsburgh facility was $56,000 in each of 2011 and 2010. There are no other significant expenses related to this lease.

9. Commitments and Contingencies (Continued)

The Company's approximate future minimum rental payments under all leases are as follows:

Fiscal Years	Total
2012	$ 221,800
2013	225,800
2014	234,800
2015	140,100
	$ 822,500

The Company has employment contracts with its President and Executive Vice President through June 30, 2013, providing for annual base salaries of $138,000 and $126,300, respectively for the first twelve month period and $141,000 and $129,100, respectively, for the second twelve month period. Each contract provides for a discretionary performance bonus for each of the twelve month periods ending June 30, 2012 and 2013, respectively. For the year ended June 30, 2011 and six month period period ended June 30, 2010, the Board of Directors awarded bonuses of $4,000 and $8,000, respectively for the President, and $3,000 and $4,400, respectively for the Executive Vice President.

The Company has an employment contract with the President of Altamira through June 30, 2012, which may be extended by mutual consent for an additional year. The contract provides for an annual base salary of $121,900 through November 30, 2010 and $128,000 for the remainder of the contract term, plus discretionary bonuses. A bonus of $5,000 was paid to him during the year ended June 30, 2011 for the twelve month period ended November 30, 2010. A bonus was also paid during the year ended June 30, 2010 in the form of a stock option valued at $4,100 using the Black-Scholes-Merton option pricing model.

The Company has a consulting agreement which expires on December 31, 2011 with an affiliate of the Chairman of the Board of Directors for marketing consulting services. The agreement provides that the consultant be paid a monthly fee of $3,000 for a certain number of consulting days as defined in the agreement. Stock options were granted to him valued at $15,300 and $9,300 during each of the years ended June 30, 2011 and 2010, respectively. Consulting expense related to this agreement amounted to $52,200 and $44,300 for the years ended June 30, 2011 and 2010, respectively.

The Company has a consulting agreement which expires March 31, 2012 with a different member of its Board of Directors for administrative services. The agreement provides that the consultant will be paid at the rate of $85 per hour. Consulting expense related to this agreement amounted to $9,000 and $32,700 for the fiscal years ended June 30, 2011 and 2010.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

10. Income Taxes

The reconciliation of the provision for income taxes at the federal statutory rate of 35% to the actual tax expense for the applicable fiscal year was as follows:

	2011		2010	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Computed "expected" income tax	$107,500	35.0%	$272,200	35.0%
Research and development credits	(15,000)	(4.9)	(13,300)	(1.7)
Other, net	(12,900)	(4.2)	(21,000)	(2.7)
Actual income taxes	$ 79,600	25.9%	$237,900	30.6%

Deferred tax assets and liabilities consist of the following:

	2011	2010
Deferred tax assets:		
Amortization of intangibles	$ 130,500	$ 117,300
Rent accrual	25,700	25,400
Other	77,700	73,800
	233,900	216,500
Deferred tax liability:		
Depreciation of property and amortization of goodwill	(40,400)	(42,600)
Net deferred tax assets	$ 193,500	$ 173,900

The breakdown between current and long-term deferred tax assets and liabilities is as follows:

	2011	2010
Current deferred tax assets	$ 77,700	$ 73,800
Long-term deferred tax assets	156,200	142,700
Long-term deferred tax liabilities	(40,400)	(42,600)
Net long-term deferred tax asset	115,800	100,100

Net deferred tax assets	$ 193,500	$ 173,900

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

10. Income Taxes (Continued)

ASC No. 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC No. 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The impact of the Company's reassessment of its tax positions in accordance with ASC No. 740 did not have an effect on the results of operations, financial condition or liquidity. As of June 30, 2011 and 2010, the Company did not have any unrecognized tax benefits related to various federal and state income tax matters.

The Company's policy is to recognize interest and penalties on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of ASC No. 740, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits. The Company is subject to U.S. federal income tax, as well as various state jurisdictions. The Company is currently open to audit under the statute of limitations by the federal and state jurisdictions for the years ending June 30, 2008 through 2010. The Company does not anticipate any material amount of unrecognized tax benefits within the next 12 months.

11. Stock Options

Option activity is summarized as follows:

	Fiscal 2011		Fiscal 2010	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Shares under option:				
Outstanding, beginning of year	45,001	$ 2.24	44,501	$ 1.90
Granted	12,000	3.21	16,500	2.35
Exercised	-	-	(4,000)	1.33
Forfeited	-	-	(12,000)	1.52

Outstanding, end of year	57,001	2.45	45,001	2.24
Options exercisable at year-end	52,833	$ 2.40	34,831	$ 1.88
Weighted average fair value per share of options granted during fiscal 2011 and 2010		$ 1.66		$ 1.25

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

11. Stock Options (Continued)

	As of June 30, 2011 Options Outstanding			As of June 30, 2011 Exercisable	
Range Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Exercise Price
$1.25-$2.40	32,001	1.77	$ 1.89	32,000	$ 1.89
$3.07-$3.24	25,000	4.94	$ 3.16	20,833	$ 3.17
	57,001			52,833	

	As of June 30, 2010 Options Outstanding			As of June 30, 2010 Exercisable	
Range Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Exercise Price
$1.25-$1.88	20,001	3.54	$ 1.59	15,000	$ 1.49
$2.40-$3.27	25,000	3.65	$ 2.77	19,831	$ 2.68
	45,001			34,831	

12. Earnings Per Common Share

Earnings per common share data was computed as follows:

	2011	2010
Net income	$ 227,600	$ 539,700
Weighted average common shares outstanding	1,196,577	1,196,051
Effect of dilutive securities	16,905	15,844
Weighted average dilutive common shares outstanding	1,213,482	1,211,895
Basic earnings per common share	$ .19	$ .45
Diluted earnings per common share	$ .19	$ .45