SCIENTIFIC INDUSTRIES INC
Form 10KSB
September 28, 2005

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

FORM 10-KSB

(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, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from______to______

Commission file number 0-6658

SCIENTIFIC INDUSTRIES, INC.

(Name of Small Business Issuer 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)

Issuer's telephone number (631) 567-4700

Securities registered under Section 12(b) of the Exchange Act:

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

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

COMMON STOCK, PAR VALUE $.05 PER SHARE
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Issuer's revenues for its most recent fiscal year. $3,593,000

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 September 2, 2005 is $1,929,100.

The number of shares outstanding of the issuer's common stock, par value $.05 per share ("Common Stock") as of September 2, 2005 is 980,207 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (check one):
Yes [ ]   No [X]

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. DESCRIPTION OF BUSINESS.

General. Scientific Industries, Inc., a Delaware corporation (the "Company"), formed in 1954, designs, manufactures, and markets a variety of laboratory equipment. The Company's products are generally used for research purposes in laboratories of universities, hospitals, pharmaceutical companies, clinics, medical device manufacturers and other related industries.

Products. The Company's products principally consist of laboratory mixers, rotators/rockers, refrigerated incubators, and magnetic stirrers.

Mixers and Disruptors. The Company's primary product is the Vortex-Genie(R) 2 Mixer. 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. Sales of the Vortex-Genie 2 Mixer (excluding accessories) represented approximately 75% of the Company's revenues for the year ended June 30, 2005 ("fiscal 2005") as compared with 77% of the Company's revenues for the year ended June 30, 2004 ("fiscal 2004").

Commencing in the year ended June 30, 2002 ("fiscal 2002") the Company expanded its mixers line to included the Vortex-Genie 2T, a mixer with an integral timer, the Vortex-Genie 1, a high speed touch mixer, and the Disruptor Genie(R), a patented cell disruptor (all introduced in fiscal 2002); the MicroPlate Genie(TM), another specialty mixer designed specifically to mix and vortex the contents of microplates (introduced in fiscal 2004) and the Multi-MicroPlate Genie(TM) (launched at the end of fiscal 2005).

Other Products. The Company's Roto-Shake Genie(R), a patented benchtop multi-purpose rotator/rocker is designed by the Company to rotate and rock a wide variety of containers which are magnetically attached to the unit's magnetized platform. The Enviro-Genie(R) Refrigerated Incubator and the BioReactor Genie(TM) Cell Culture Chamber (introduced during fiscal 2003) are multi-functional benchtop environmental chambers designed to perform various functions under controlled environmental conditions of temperature. The Company's Bag Rotator also mixes transfer packs and other sealed bags for the clinical market.

During the past two fiscal years, the Company launched two other products -the Magstir Genie(R), a new patented magnetic stirrer, which is programmable and offers a unique low to high speed range (launched in fiscal 2004) and the new Multi-Magstir Genie(TM) (launched in fiscal 2005). Other magnetic stirrers are currently under development for introduction during the fiscal year ending June 30, 2006 ("fiscal 2006").

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

Marketing. The Company's products are generally distributed and marketed through an established network of domestic and foreign laboratory equipment distributors. See "Major Customers" below. In general, it takes two to three years for a new product to begin generating meaningful sales in the industry due to the catalog distribution system.

Commencing in January 2003, the Company substantially increased its marketing efforts and expenditures with: (i) the employment of a Director of Sales and Marketing; (ii) the entry into a long-term agreement providing for a substantial increase in the marketing consulting services of an affiliate of a Director of the Company, who earlier had been a marketing employee of the Company's principal distributor, and (iii) an expanded promotion and advertising program.

The Company also markets its products through attendance of industry trade shows, trade publication advertising, brochures and catalogs, and to a limited extent, in view of the type of customer for the Company's products, its own web site.

Assembly and Production Materials. The Company's production operation principally involves assembly of components supplied by various domestic and international independent suppliers. The Company does not have any sole suppliers, except as to a few components where it is not practicable to have multiple suppliers and alternative suppliers are available. Over the last two fiscal years, the Company has purchased a substantial portion of components from overseas factories, with a material part of the purchases effected through a U.S. vendor. (The vendor accounted for approximately 35% and 28% for fiscal 2005 and fiscal 2004, respectively, of the Company's material purchases during fiscal 2005.) See "Risk Factors" The Company is Heavily Dependent on Outside Suppliers for the Components of Its Products.

Patents, Trademarks, Licenses and Franchises. The Company holds several United States patents relating to existing products. It licenses one of its patents, a patent on a utilitarian feature of its Vortex-Genie 2 Mixer on a non-exclusive, royalty-free basis to Henry Troemner, LLC, ("Troemner"), under an agreement dated December 1, 1999 settling a lawsuit instituted by the Company in April, 1999. The patent and license expire on November 2, 2005. The Company's patent for the TurboMix(TM), an accessory to the existing Vortex-Genie 2 Mixer, expires in September 2015. Its patent on the Roto-Shake Genie expires in July 2016. A new patent and several trademark applications are currently pending. No representation can be made that any application will be granted or as to the protection, if any, it will provide if granted.

The Company has various proprietary marks, including BioReactor Genie(TM), Disruptor Beads(TM), Disruptor Genie(R), Enviro-Genie(R), Genie(TM), MagStir Genie(R), MultiMagStir Genie(TM), MicroPlate Genie(TM), Multi-MicroPlate Genie(TM), Roto-Shake Genie(R), TurboMix(TM), and Vortex-Genie(R), each of which it considers important to the success of the related product.

Foreign Sales. The Company's foreign sales, all of which were to various distributors outside the United States (principally Asia and Europe) accounted for approximately 43.8% of the Company's net sales for fiscal 2005 and 42.5% for fiscal 2004. 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.

Major Customers. Sales, mostly of the Vortex-Genie 2 Mixer to two of the Company's customers, each a major distributor, represented in the aggregate approximately 40% and 42% of net sales for fiscal 2005 and for fiscal 2004, respectively. A third customer, also a distributor of the Company's products, accounted for 10.2 % in fiscal 2005 and under 10% in fiscal 2004 of the Company's net sales. The loss of or a material reduction of sales to either distributor, as experienced during fiscal year ended June 30, 2003, could have a material adverse effect upon the operating results of the Company. See "Competition" below for offerings by distributors of competitive products.

Backlog. The Company's backlog is not significant because the Company's current line of products is comprised of standard catalog items. The typical lead time for order fulfillment is approximately two weeks or less.

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 quality, technical specifications, price, and product recognition and acceptance. The Company believes it is a dominant factor in the market for vortex mixers in the United States and is widely recognized in the international vortex mixers market.

In the general area of laboratory equipment, the Company's major competitors are Troemner, Barnstead/Thermolyne Corporation, (an Apogent Technologies company owned by Fisher Scientific, the Company's principal customer), IKA-Werke GmbH & Co. KG, a German company, and Heidolph Instruments GmbH, a German company. Since the Company's products are primarily sold through distributor catalogs, the Company relies heavily on the distributors' decisions as to which products they include in their catalogs. Both Fisher Scientific and another major distributor of the Company's products offer private label mixers in competition with the Company's vortex mixers. The exclusion of the Vortex-Genie 2 Mixer from either distributor's catalog could have a material adverse effect on the Company.

Research and Development. In connection with the development of new products, the Company incurred research and development expenses of $350,200 during fiscal 2005 compared to $364,800 during fiscal 2004. The Company expects its expenditures in fiscal 2006 for research and development will be in approximately the same range.

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, to establish occupational safety and health standards and to 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 September 2, 2005, the Company employed 19 persons of whom 18 were full-time, including its two executive officers. None of the Company's employees is represented by any unions.

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 STATEMENTS TO REFLECT FUTURE EVENTS OR CIRCUMSTANCES.

THE COMPANY OFFERS A LIMITED NUMBER OF PRODUCTS WITH SALES OF ONE PRODUCT ACCOUNTING FOR A SUBSTANTIAL PORTION OF ITS REVENUES

The Company currently offers for sale a limited number of products. Sales of its Vortex-Genie 2 Mixer accounted for approximately 75% and 77% of the Company's sales for fiscal 2005 and fiscal 2004, respectively. No assurance can be given that the Company will be able to maintain its current level of sales of the Vortex-Genie 2 Mixer or that the operating margin derived therefrom will not be adversely affected.

DEPENDENCE ON MAJOR CUSTOMERS

The industry is dominated in the U.S. by two major laboratory equipment distributors, Fisher Scientific and VWR International, each of which currently distributes the Company's products. Total sales to these two customers accounted for approximately 40% and 42% of the Company's total sales in the last two fiscal years. Moreover, Fisher Scientific acquired in 2004 Apogent Technologies, which owns Barnstead/Thermolyne, a competitor of the Company. No representation can be made at this time as to the effect, if any, of this acquisition on sales of the Company's products to Fisher Scientific. A third customer, also a distributor of the Company's products, accounted for 10.2 % in fiscal 2005 and under 10% in fiscal 2004, respectively of the Company's net sales. A material reduction in sales to any of the three distributors would have a material adverse effect on the results of operations of the Company.

THE COMPANY IS A SMALL PARTICIPANT IN ITS HIGHLY COMPETITIVE INDUSTRY

The laboratory products industry is highly competitive. Although the Company's principal product, the Vortex-Genie 2 Mixer, has been widely accepted, the Company's annual net sales ($3,593,000 for fiscal 2005 and $3,532,600 for fiscal 2004) is much less than the annual revenues of many of its competitors in the industry. Its principal competitors are substantially larger and have much greater financial, production and marketing resources than the Company. In the past few years, there have been new entrants into the vortex mixer market including a supplier of the Company's two largest distributors.

THE COMPANY'S ABILITY TO GROW AND COMPETE EFFECTIVELY IS IN PART DEPENDENT ON ITS ABILITY TO DEVELOP AND EFFECTIVELY MARKET NEW PRODUCTS

In the recent past, the Company been pursuing a program to develop and market new laboratory equipment with a view to increasing its revenues and reducing its dependence on the Vortex-Genie 2 Mixer. Pursuant to the program, the Company first developed and introduced during the fiscal year ended June 30, 1999 the Roto-Shake Genie rotator/rocker and then in the fiscal year ended June 30, 2001 the Enviro-Genie refrigerated incubator. During fiscal 2002, the Company began selling three new products which generally target the vortex mixer market - the Vortex-Genie 1 touch mixer, the Vortex-Genie 2T timed mixer, and the Disruptor Genie cell disruptor. More recently, the Company introduced the MagStir Genie and MultiMagStir Genie magnetic stirrers and the MicroPlate Genie and Multi-MicroPlate Genie microplate mixers, with additional products currently under development.

Revenues derived from products other than the Vortex-Genie 2, (excluding accessories) amounted to $669,500 and $648,000, respectively, for fiscal 2005 and fiscal 2004. The Company historically has relied primarily on its distributors and their catalogs to market its products. Sales of new products are still heavily dependent on their inclusion in distributors' catalogs and websites, since the majority of the end users purchase through distributors. Accordingly, 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. During fiscal 2004, the Company changed its pricing policies to encourage distributors to include the products in their catalogs and websites, with a revised discount structure.

In the beginning of calendar 2003, the Company began taking a more aggressive approach towards the marketing of its products, starting with the hiring of a sales and marketing director, and allocating more resources for advertising, promotions, website, and miscellaneous other selling and marketing tools. No assurance can be made that the amounts allocated by the Company for its development and marketing program will prove beneficial or that the pricing policy will result in the inclusion of any particular product in a distributor's catalog and website.

THE COMPANY IS HEAVILY DEPENDENT ON OUTSIDE SUPPLIERS FOR THE COMPONENTS OF ITS PRODUCTS

While the Company believes there are several suppliers available for all of its components, it presently relies on one source for several components. (See "Assembly and Production Materials".) The disruption or termination of the operations of such sources could have an adverse effect, hopefully of short duration, on the Company's results of operation. To diminish this risk, the Company keeps higher than normal quantities on-hand of such components, and has added several alternate suppliers during 2005. Furthermore, the Company intends to continue purchasing components from overseas factories directly or indirectly. Such reliance could increase the risks of the Company's operation including those arising from government controls, foreign conditions, custom duties, changes in both foreign and United States government policies, and the reliability and financial condition of such suppliers.

THE COMPANY'S ABILITY TO COMPETE DEPENDS IN PART ON ITS ABILITY TO SECURE AND MAINTAIN PROPRIETARY RIGHTS TO ITS PRODUCTS

The Company's ability to compete depends in part on its ability to secure and maintain proprietary rights to its products. The Company 's design patent on a feature of its Vortex-Genie 2 Mixer, its principal product, expires in November 2005. It holds a patent on an accessory to that product which expires in September

2015 and on another product which expires in July 2016. A patent application on a new product is pending.

There can be no assurance that the expiration of the design patent will not be materially harmful to the Company's revenues or that the Company will be successful in obtaining additional patents, that any patent issued to the Company provides or will provide the Company with competitive advantages or will not be challenged by third parties or that the patents of others will not prevent the commercialization of products developed by the Company. Furthermore, there can be no assurance that others will not independently

develop similar products or design around the Company's patents. Any of the foregoing activities could have a material adverse effect on the Company. Moreover, there is no assurance that the enforcement by the Company of its patent rights will not result in substantial litigation costs, as it did in fiscal 2000 in the defense of its proprietary claim with respect to its Vortex-Genie 2 Mixer.

THE COMPANY HAS LIMITED MANAGEMENT RESOURCES

The loss of the services of Ms. Helena Santos, the Company's Chief Executive Officer, President and Treasurer, or Mr. Robert Nichols, the Company's Executive Vice President 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 results and financial condition.

THE COMMON STOCK OF THE COMPANY IS THINLY TRADED AND IS SUBJECT TO VOLATILITY

The Common Stock of the Company is traded on the Over-the-Counter Bulletin Board and, historically, has been thinly traded. As of September 7, 2005, there were only 980,207 shares of Common Stock of the Company outstanding, of which 321,815 shares are held by the directors and officers of the Company. There have been a number of trading days during fiscal 2005 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. DESCRIPTION OF PROPERTY.

The Company's executive offices and manufacturing facilities comprising approximately 25,000 square feet are located at 70 Orville Drive, Bohemia, New York 11716. They are held pursuant to a lease which was amended in September 2004, principally to extend the expiration date from December 31, 2004 to January 31, 2010, and to reduce the minimum base annual rent. See Note 8 to the Financial Statements in Item 7 for further information. The leased facilities are suitable and adequate for the Company's operations. In the opinion of management, the property is adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to any pending legal proceedings. However, a financial advisor employed by the Company pursuant to an engagement letter that was not extended by the Company beyond its expiration date of March 31, 2002 asserted in April 2002 a claim against the Company in the amount of $125,000 for alleged services rendered to the Company that were alleged to be outside the scope of the letter. The Company denies engaging the financial advisor for any services outside the scope of the engagement letter or that any amount is owing to the advisor. The Company's counsel has advised the Company that based on its review of the engagement letter and the Company's denial, it is unlikely that the financial advisor will prevail if it institutes a legal proceeding.

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 2005.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

(a) 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 2004 and fiscal 2005, 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
09/30/03	1.12	1.20
12/31/03	1.20	1.50
03/31/04	1.50	1.85
06/30/04	1.85	2.00
09/30/04	1.95	2.05
12/31/04	2.00	2.25
03/31/05	2.25	3.28
06/30/05	2.26	3.01

(b) There were, as of September 7, 2005, 854 record holders of the Company's Common Stock.

(c) On January 14, 2005, The Company paid a cash dividend of $.07 per share to stockholders of record on October 20, 2004. The Company is not subject to any agreement which prohibits or restricts the Company from paying dividends on its Common Stock.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Certain statements contained in this report are not based on historical facts, but are forward-looking statements that are based upon various assumptions about future conditions. Actual events in the future could differ materially from those described in the forward-looking information. Numerous unknown factors and future events could cause such differences, including but not limited to, product demand, market acceptance, success of marketing strategy, 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 our financial statements and the related notes included elsewhere in this report.

Overview. During fiscal 2005, the Company achieved a significant increase of 30% in Income Before Income Taxes compared to fiscal 2004 $423,000 compared to $325,700 mainly the result of the Company's success in reducing operating costs. However, due to inflationary pressures the Company does not anticipate achieving any material cost reductions in fiscal 2006. Furthermore, increasing price competition could also impact the Company's gross profit margins.

Net sales increased by $60,400 (1.7%) to $3,593,000 for fiscal 2005 from $3,532,600 for fiscal 2004, which appears to be comparable to the organic growth rate reported by many laboratory equipment suppliers in the industry. The Company's sales increase was mainly due to greater sales of new products and accessories to overseas

customers.

The laboratory products industry has been subject to certain merger and acquisition activity in the past two years, creating additional pricing and competitive pressures. In fiscal 2004, Fisher Scientific, the Company's largest customer acquired Apogent Technologies, Inc., a major supplier of various laboratory equipment, and the Company's second largest customer, VWR International was acquired by Clayton, Dubilier & Rice, Inc..

The Company believes that in order to remain competitive in its current environment, it must continue its marketing and sales efforts to achieve product recognition and customer loyalty, and to target new markets with its existing products and new technology.

Results of Operations. Net sales for fiscal 2005 were $3,593,000, an increase of $60,400 (1.7%) compared to net sales of $3,532,600 for fiscal 2004 due to an increase from $902,600 in fiscal 2004 to $967,400 in fiscal 2005 in sales of new products and accessories. The increase in new products and accessory sales was primarily to overseas customers. The gross profit percentage for fiscal 2005 of 48.7% exceeded the gross profit percentage of 47.2% for fiscal 2004, mostly as a result of lower factory overhead costs and, to a lesser extent, increased selling prices.

General and administrative ("G&A") expenses were approximately the same at $682,300 for fiscal 2005, compared to

$686,700 in fiscal 2004.

Selling expenses for fiscal 2005 decreased slightly by $7,100 (2.3%) to $316,400 compared to $309,300 for fiscal 2004 mainly due to lower website and printed materials expenses.

Research and development expenses decreased by $14,600 (4.0%) to $350,200 for fiscal 2005 compared to $364,800 for fiscal 2004, as a result of lower outside engineering costs, while maintaining a constant level of development projects.

Income tax expense was $118,500 for fiscal 2005 compared to $77,000 for fiscal 2004, due mainly to higher profits.

Liquidity and Capital Resources. Net cash provided by operating activities was $319,900 for fiscal 2005 compared to $338,000 impacted in fiscal 2005 by higher inventory and higher accounts receivable balances at June 30, 2005. Cash used in investing activities increased to $315,000 for fiscal 2005 compared to $168,900 for fiscal 2004, reflecting higher purchases of investment securities, which as of June 30, 2005 amounted to $1,026,700. Cash used in financing activities increased to $62,400 for fiscal 2005 compared to $35,300 in fiscal 2004, primarily as a result of the cash dividend paid in January 2005. As a result of the foregoing, the Company's cash and cash equivalents decreased by $57,500 to $183,900 as of June 30, 2005 compared to $241,400 as of June 30, 2004.

The increase of $265,500 in the Company's working capital to $2,248,800 from $1,983,300 was primarily generated by profitable operations, partially offset by the cash dividend paid and capital expenditures. The Company has available for its working capital needs, a secured bank line of credit of $200,000 with North Fork Bank with interest at prime, all of which was available as of June 30, 2005. The Company has never borrowed under this line of credit. Management believes that it will be able to meet its cash flow requirements during the fiscal year ending June 30, 2006 from its available financial resources which are anticipated to include future cash generated from operations, its cash and cash equivalents and investments, and if required, the credit line.

Capital Expenditures. During fiscal 2005, the Company incurred $53,900 in capital expenditures, the level which the Company expects to incur during fiscal 2006. The Company believes that the required funding for capital expenditures will be, as in past fiscal years, from the Company's operations or available working capital.

ITEM 7. FINANCIAL STATEMENTS.

The Financial Statements required by this item are attached hereto on pages F1-F18.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Chief Executive and Chief Financial Officer of the Company has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms. The Company also concluded that information required to be disclosed in such reports is accumulated and communicated to the Company's management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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.

ITEM 8B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

DIRECTORS

The Company has five Directors. The name, principal occupation for the last five years, selected biographical information and period of service as a director of the Company of each Director are set forth in this section.

Arthur M. Borden, Esq. (age 85), a Director since 1974, has been counsel to the law firm of Katen Muchin Zavis Rosenman (formerly Rosenman & Colin) during the past five years. He is a director of Supreme Industries, Inc., a nationwide manufacturer of specialized truck bodies.

Joseph G. Cremonese (age 69), a Director since November 2002, 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 engaged in the production and sale of products for science and biotechnology. Since March 2003, Mr. Cremonese has been a director of and consultant to Proteomics, Inc., a producer of recombinant proteins for medical research. Prior to 1991, he had been employed by Fisher Scientific, presently the the Company's largest customer.

Joseph I. Kesselman (age 80), a Director since 1961 and Chairman of the Board since August 29, 2002, has been for more than five years a consultant to various corporations. He is a director of Nuclear and Environmental Protection Inc., Hopare Holding, S.A. (a

Swiss company), and Infranor Inc., a developer and manufacturer of servo systems.

Roger B. Knowles (age 79), a Director since 1965, is retired. During the past five years he has been involved in liquidating various real estate and manufacturing concerns.

James S. Segasture (age 69), a Director since 1991, has been a private investor since February 1990.

The Directors are elected to two-year staggered terms. The current terms of the Directors expire at the annual meeting of stockholders of the Company to be held at the next annual meeting following: the fiscal year ended June 30, 2005 - two Directors (Messrs. Cremonese and Knowles, Class C), the fiscal year ending June 30, 2006 - two Directors (Messrs. Borden and Segasture, Class A) and the fiscal year ending June 30, 2007 - one Director (Mr. Kesselman, Class B).

BOARD COMMITTEES

Joseph I. Kesselman and James S. Segasture have been appointed as the sole members of the Company's Stock Option Committee to serve at the discretion of the Board and to administer the Company's 2002 Stock Option Plan.

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

EXECUTIVE OFFICERS

Helena R. Santos, CPA (age 41), employed by the Company since 1994, was appointed in August 2002 as President, Chief Executive Officer and Treasurer. Previously she served as Vice President, Controller from 1997 and 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.

Robert P. Nichols (age 44), employed by the Company since February 1998, was appointed in August 2002 as Executive Vice President. He had been Vice President, Engineering from May 2001. Prior to joining the Company, he was an Engineer Manager with Bay Side Motion Group, a precision motion equipment manufacturer from January 1996 to February 1998.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company believes that, for the year ended June 30, 2005, its officers, directors and 10% stockholders timely complied with all filing requirements of Section 16(a) of the Securities Act of 1934, as amended.

ITEM 10. EXECUTIVE COMPENSATION.

The following table summarizes all compensation paid by the Company to its then Chief Executive Officer and President and Executive Vice President with respect to each of the three fiscal years ended June 30, 2005, 2004 and 2003. No other executive officer earned in excess of $100,000 in any of such fiscal periods.

SUMMARY COMPENSATION TABLE

ANNUAL COMPENSATION

Name	Fiscal Year	Salary	Bonus	All Other Compen- sation
Helena R. Santos (1)	2005	$108,200	$ -	$ -
	2004	$100,000	$ -	$ -
	2003	$ 98,500	$ -	$ -
Robert P. Nichols (2)	2005	$103,200	$ -	$ -
	2004	$ 95,000	$ -	$ -
	2003	$ 94,000	$ -	$ -
Lowell A. Kleiman (1)	2003	$ 53,300	$ -	$ 19,500

(1) Ms. Santos was appointed Chief Executive Officer and President on August 29, 2002 following the termination of Mr. Kleiman's employment. His other compensation represents benefits accrued upon termination.

(2) Mr. Nichols was appointed Executive Vice President on August 29, 2002.

OPTION GRANTS IN LAST FISCAL YEAR

There were no options granted to officers during fiscal year 2005.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

There were no options exercised by officers during fiscal year 2005.

Employment Agreements

The Company's employment agreements with Ms. Helena R. Santos and Mr. Robert P. Nichols effective through December 31, 2006 provide for base annual salaries of $110,000, an increase on September 1, 2004 from $100,000 for Ms. Santos and $105,000 for Mr. Nichols, an increase on September 1, 2004 from $95,000. Each agreement authorizes annual bonuses at the discretion of the Board based upon performance criteria and contains noncompetition and confidentiality covenants.

DIRECTORS' COMPENSATION

The Company currently pays each non-employee Director a quarterly retainer of $750 and a fee of $500 for each meeting attended, plus reimbursement 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. Joseph I. Kesselman, as Chairman of the Board, also receives a monthly fee of $750. During fiscal 2005, the fees to non-employee Directors aggregated $36,000.

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 2002 the Board of Directors granted under the 2002 Plan annually options to purchase 4,000 shares of Common Stock for each of them exercisable at the fair market value on the date of grant. Accordingly, as of June 30, 2005, 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 for 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 2002. As of June 30, 2005, options under the 1992 Plan with respect to 49,000 shares had been exercised by the Directors. 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. Mr. Joseph G. Cremonese who was elected Director at the 2002 Annual Meeting of Stockholders, was granted on December 1, 2003 an option to purchase 5,000 shares of Common Stock at the fair market value of $1.35.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth, as of June 30, 2005, the number of shares of Common Stock beneficially owned by (i) the persons known to the Company to be the owners of more than 5% of the 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 Common Stock owned by such individual. Each person has sole voting and investment power with respect to the shares shown, except as noted. The address for each director and executive officer is c/o Scientific Industries, Inc., 70 Orville Drive, Bohemia, New York 11716.

Name	Amount and Nature of Beneficial Ownership	% of Class
Lowell A. Kleiman 16 Walnut Street Glen Head, NY 11545	139,581 (1)	14.2%
Arthur M. Borden	59,540 (2)	5.9%
Joseph G. Cremonese	21,210 (3)	2.1%
Joseph I. Kesselman	63,520 (4)	6.3%
Roger B. Knowles	59,495 (5)	5.9%
James S. Segasture	187,250 (6)	19.0%
Helena R. Santos	21,000 (7)	2.1%

Robert P. Nichols	27,800 (8)	2.8%
All directors and executive officers as a group (7 persons)	439,815 (9)	40.1%

(1) Based on information reported in his Schedule 13D filed with the Securities and Exchange Commission on October 30, 2002.
(2) Includes 23,000 shares issuable upon exercise of options.
(3) 16,210 shares are owned jointly with his wife and 5,000 shares are issuable upon exercise of options.
(4) Includes 23,000 shares issuable upon exercise of options and 735 shares of Common Stock owned jointly with his wife.
(5) Includes 23,000 shares issuable upon exercise of options, 35,158 shares owned by his wife, and 1,337 shares owned by a trust of which he is a trustee, beneficial ownership of which is disclaimed by him.
(6) Includes 4,000 shares issuable upon exercise of options and 493 shares owned by his wife.
(7) Includes 15,000 shares issuable upon exercise of options.
(8) Includes 25,000 shares issuable upon exercise of options.
(9) includes 118,000 shares issuable upon exercise of options.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Mr. Joseph G. Cremonese, who was elected a Class C Director at the Annual Meeting of Stockholders in November 2002 or his affiliate, Laboratory Innovation Company, Ltd., have been providing independent marketing consulting services to the Company for approximately eight years. The services have been rendered since January 1, 2003 pursuant to a consulting agreement which was amended in March 2005. The agreement as amended provides that Mr. Cremonese and his affiliate render, at the request of the Company, through December 31, 2006 marketing consulting services of at least 72 (originally 80), but not more than 96, days per year at the rate of $500 (originally $450) per day with a monthly cap of $3,000, with the Company's obligation reduced to the extent the consulting services are less than 72 days for the 12 month period. The agreement contains confidentiality and non-competition covenants. During fiscal 2005, the Company paid an aggregate of $31,000 for the consulting services.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

Exhibits to this report are listed in the Exhibit Index at the end of this report.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the last quarter of fiscal 2005.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The Company incurred for the services of Nussbaum, Yates & Wolpow, P.C.: audit fees (including for preparation of the

Company's corporate tax returns) of approximately $26,500 and $26,000 in connection with the audit of the Company's financial statements for fiscal 2005 and fiscal 2004, respectively; $2,700 and $2,550 in connection with the quarterly reviews for fiscal 2005 and fiscal 2004, respectively, and $3,600 in fiscal 2005 in connection with reviews of amendments of the Company's annual and quarterly reports filed under the Securities Exchange Act of 1934. There were no other audit related fees or other fees paid to Nussbaum, Yates & Wolpow, P.C.

The Board of Directors has reviewed and discussed the audited financial statements with management. It discussed with the independent auditors of the Company matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards AU 380), as modified or supplemented and received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No.1, Independence Discussions with Audit Committees), as modified or supplemented. The Board discussed with the independent accountant the independent accountant's independence.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCIENTIFIC INDUSTRIES, INC.
(Registrant)

/s/ Helena R. Santos

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

Date: September 28, 2005

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

Name	Title	Date
/s/ Arthur M. Borden	Director	September 28, 2005
Arthur M. Borden		
/s/ Joseph G. Cremonese	Director	September 28, 2005

Joseph G. Cremonese

/s/ Joseph I. Kesselman	Chairman of the Board	September 28, 2005
Joseph I. Kesselman		
/s/ Roger B. Knowles	Director	September 28, 2005
Roger B. Knowles		
/s/ James S. Segasture	Director	September 28, 2005
James S. Segasture		

EXHIBIT INDEX

Exhibit Number	Description
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 Form 8-K filed on January 6, 2003) 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. (Filed for EDGAR purposes only)

10(a)-1	Amendment to lease between Registrant and REP A10 LLC 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(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(c)	Employment Agreement dated September 1, 2004, 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	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).
21	Subsidiaries of the Registrant Scientific Packaging Industries, Inc., a New York corporation, is a wholly-owned inactive subsidiary of the Company.
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

SCIENTIFIC INDUSTRIES, INC.
AND SUBSIDIARY

YEARS ENDED JUNE 30, 2005 AND 2004

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

YEARS ENDED JUNE 30, 2005 AND 2004

CONTENTS

Report of Independent Registered Public Accounting Firm

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

We have audited the consolidated balance sheets of Scientific Industries, Inc. and subsidiary as of June 30, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial position of Scientific Industries, Inc. and subsidiary as of June 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with United States generally accepted accounting principles.

/s/Nussbaum Yates & Wolpow, P.C.
____
Nussbaum Yates & Wolpow, P.C.
Melville, New York

September 7, 2005

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2005 AND 2004

ASSETS

	2005	2004
Current assets		
Cash and cash equivalents	$ 183,900	$ 241,400
Investment securities	1,026,700	802,500
Trade accounts receivable, less allowance for doubtful accounts of $10,600 in 2005 and 2004	450,600	388,800
Inventories	800,400	666,200
Prepaid and other current assets	57,800	58,200
Deferred taxes	49,000	62,300

	2005	2004
Total current assets	2,568,400	2,219,400
Property and equipment, net	136,100	140,500
Deferred taxes	-	25,500
Intangible assets, less accumulated amortization of $48,700 and $41,300 in 2005 and 2004	35,400	12,500
Other	40,000	72,800
Total assets	$ 2,779,900	$ 2,470,700

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 82,400	$ 76,000
Accrued expenses and taxes	237,200	160,100
Total current liabilities	319,600	236,100
Deferred compensation	19,400	36,000
Deferred taxes	3,000	-
Commitments and contingencies		
Shareholder's equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; issued 1,000,009 and 995,343 shares in 2005 and 2004	50,000	49,800
Additional paid-in capital	991,200	984,200
Accumulated other comprehensive income, unrealized holding loss on investment securities	(7,600)	(3,500)
Retained earnings	1,456,700	1,220,500
	2,490,300	2,251,000
Less common stock held in treasury at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	2,437,900	2,198,600
Total liabilities and shareholders' equity	$ 2,779,900	$ 2,470,700

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

JUNE 30, 2005 AND 2004

	2005	2004
Net sales	$ 3,593,000	$ 3,532,600
Cost of sales	1,844,500	1,864,100
Gross profit	1,748,500	1,668,500
Operating expenses:		
General and administrative	682,300	686,700
Selling	316,400	309,300
Research and development	350,200	364,800
	1,348,900	1,360,800
Income from operations	399,600	307,700
Other income:		
Interest income	18,400	10,500
Other income, net	5,000	7,500
	23,400	18,000
Income before income taxes	423,000	325,700
Income tax expense:		
Current	76,700	51,200
Deferred	41,800	25,800
	118,500	77,000
Net income	$ 304,500	$ 248,700

Basic earnings per common share	$ .31	$ .26
Diluted earnings per common share	$ .29	$ .24
Weighted average common shares outstanding	978,008	965,230
Weighted average common shares outstanding, assuming dilution	1,051,039	1,018,810

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED JUNE 30, 2005 AND 2004

	Common Stock		Additional Paid-in	Accumulated Comprehensive
	Shares	Amount	Capital	Income (Loss)
Balance, July 1, 2003	980,343	$49,000	$971,200	$ 300
Net income	-	-	-	-
Other comprehensive loss:				
Unrealized holding loss arising during period	-	-	-	(4,600)
Less: reclassification adjustment for loss included in net income	-	-	-	800
Change in net unrealized holding gain	-	-	-	-
Comprehensive income	-	-	-	-
Exercise of stock options	15,000	800	12,200	-
Income tax benefit of stock options exercised	-	-	800	-
Cash dividend paid, $.05 per share	-	-	-	-
Balance, June 30, 2004	995,343	49,800	$984,200	$ (3,500)
Net income	-	-	-	-

Other comprehensive loss:				
Unrealized holding loss arising during period	-	-	-	(5,500)
Less: reclassification adjustment for loss included in net income	-	-	-	1,400
Change in net unrealized holding gain	-	-	-	-
Comprehensive income	-	-	-	-
Exercise of stock options	4,666	200	5,700	-
Income tax benefit of stock options exercised	-	-	1,300	-
Cash dividend paid, $.07 per share	-	-	-	-
Balance, June 30, 2005	1,000,009	$50,000	$991,200	$(7,600)

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity
Balance, July 1, 2003	$1,020,100	19,802	$52,400	$ 1,988,200
Net income	248,700	-	-	248,700
Other comprehensive loss:				
Unrealized holding loss arising during period	-	-	-	(4,600)
Less: reclassification adjustment for loss included in net income	-	-	-	800
Change in net unrealized holding gain	-	-	-	(3,800)
Comprehensive income	-	-	-	244,900
Exercise of stock options	-	-	-	13,000
Income tax benefit of stock options exercised	-	-	-	800
Cash dividend paid, $.05 per share	(48,300)	-	-	(48,300)
Balance, June 30, 2004	1,220,500	19,802	52,400	2,198,600

Net income	304,500	-	-	304,500
Other comprehensive loss:				
Unrealized holding loss arising during period	-	-	-	(5,500)
Less: reclassification adjustment for loss included in net income	-	-	-	1,400
Change in net unrealized holding gain	-	-	-	(4,100)
Comprehensive income	-	-	-	300,400
Exercise of stock options	-	-	-	5,900
Income tax benefit of stock options exercised	-	-	-	1,300
Cash dividend paid, $.07 per share	(68,300)	-	-	(68,300)
Balance, June 30, 2005	$1,456,700	19,802	$52,400	$ 2,437,900

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Operating activities:		
Net income	$ 304,500	$ 248,700
Adjustments to reconcile net income to net cash provided by operating activities		
Loss on sale of investments	1,400	800
Loss on disposal of property and equipment	-	4,200
Depreciation and amortization	66,600	68,000
Provision for bad debts	-	3,200
Deferred income taxes	41,800	25,800
Income tax benefit of stock options exercised	1,300	800
Changes in assets and liabilities:		
Trade accounts receivable	(61,800)	17,600
Inventories	(134,200)	(84,000)
Prepaid expenses and other current assets	600	6,400
Other assets	32,800	2,600
Accounts payable	6,400	17,900

Accrued expenses and taxes	77,100	33,800
Deferred compensation	(16,600)	(7,800)
Total adjustments	15,400	89,300
Net cash provided by operating activities	319,900	338,000
Investing activities:		
Purchase of investment securities, available for sale	(435,400)	(337,600)
Purchase investment securities, held to maturity	(113,500)	-
Redemption of investment securities, available for sale	222,600	92,600
Redemption of investment securities, held to maturity	95,500	130,800
Capital expenditures	(53,900)	(53,400)
Proceeds from sale of property and equipment	-	200
Purchase of intangible assets	(30,300)	(1,500)
Net cash used in investing activities	(315,000)	(168,900)
Financing activities:		
Proceeds from exercise of stock options	5,900	13,000
Cash dividend declared and paid	(68,300)	(48,300)
Net cash used in financing activities	(62,400)	(35,300)
Net increase (decrease) in cash and cash equivalents	(57,500)	133,800
Cash and cash equivalents, beginning of year	241,400	107,600
Cash and cash equivalents, end of year	$ 183,900	$ 241,400
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 24,000	$ 8,000

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

1. Summary of Significant Accounting Policies

Principles of Consolidation

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

Revenue Recognition

The Company records revenue from the sale of its goods at the time of shipment. All shipments are FOB shipping point. All sales are final without right of return or payment contingencies. The Company has no special sales arrangements or agreements with any of its customers. Sales are recorded when the following criteria are met:

Receipt of a written purchase order which is binding on the customer.
Goods are shipped and title passes.
Prices are fixed.
Collectibility is reasonably assured.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At certain times, the Company maintains balances in accounts in excess of the $100,000 FDIC insurance coverage.

Accounts Receivable

In order to record the Company's accounts receivable at their net realizable value, the Company must assess their collectibility. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

1. Summary of Significant Accounting Policies (Continued)

Investment Securities

Securities which the Company has the ability and positive intent to hold to maturity are carried at amortized cost. Substantially all held-to-maturity securities mature within one year. 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 (first in, first out) 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 computer equipment, machinery and equipment and furniture and fixtures 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.

Intangible Assets

Intangible assets consist of patents and trademarks being amortized on a straight-line basis over five years. Amortization expense of intangible assets for the years ended June 30, 2005 and 2004 was $7,400 and $4,500. Expense is expected to be approximately $8,000 annually for the next five years.

Asset Impairment

The Company reviews its long-lived assets annually to determine whether facts and circumstances exist which indicate that the carrying amount of assets may not be recoverable or the useful life is shorter than originally estimated. If the facts warrant a review, the Company assesses the recoverability of its assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. If assets are determined to be recoverable, but the useful lives are shorter than originally estimated, the net book value of the assets is depreciated over the newly determined remaining useful lives. The Company has not recorded any impairment charges.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for income taxes according to the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". Under the liability method specified by SFAS 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. Deferred income taxes result principally from the timing of the deductibility of the rent accrual, inventory adjustments, deferred compensation paid, the use of accelerated methods of depreciation and amortization for tax purposes, and tax credit carryforwards.

Advertising

Advertising costs are expensed as incurred. Advertising expense amounted to $43,700 and $46,700 for the years ended June 30, 2005 and 2004.

Stock Compensation Plan

During the year ended June 30, 2003, the Company established a new ten-year stock option plan (the "2002 Plan") which provides for the future 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. 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 Prior Plan provided that each non-employee member of the Board of Directors be granted, annually commencing March 1993, for a period of four years, a ten-year option to purchase 3,000 shares of Common Stock at the fair market value on the date of grant and commencing annually in December 1997, for as long as director, a ten-year option to purchase 4,000 shares of Common Stock at the fair market value on the date of grant. No options have been granted to the directors of the Company since December 2001. The options expire at various dates through October 2012. At June 30, 2005, 83,000 shares of Common Stock were available for grant under the 2002 Plan plus 21,000 shares which expired under the Prior Plan.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

1. Summary of Significant Accounting Policies (Continued)

Stock Compensation Plan (Continued)

The Company has elected to account for its employee stock options under APB Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation expense is recognized for options granted under fixed plans when the option price is not less than the fair market value of the underlying common stock on the date of grant. Pro forma information regarding net income and earnings per share, however, is required under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) for entities continuing to apply APB No. 25. For disclosure purposes, the Company has estimated the fair value of its employee stock options on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for stock options granted in 2004 (there were no options granted in 2005):

	2004
Expected life (in years)	10
Risk-free interest rate	4.72%
Expected volatility	38.36%
Dividend yield	2.31%

Under the above model, the total value of stock options granted in 2004 was $5,300, which would be amortized ratably on a pro forma basis over the related vesting periods. Had compensation cost been determined based upon the fair value of the stock options at grant date for all awards, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2005	2004
Net income:		
As reported	$304,500	$248,700
Pro forma	302,700	244,400
Basic earnings per share:		
As reported	$ .31	$ .26
Pro forma	$ .31	$ .25
Diluted earnings per share:		
As reported	$ .29	$ .24
Pro forma	$ .29	$ .24
Stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported	$ -	$ -

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

1. Summary of Significant Accounting Policies (Continued)

Stock Compensation Plan (Continued)

The Company did not grant any options or warrants as compensation for goods or services to non-employees for the years ended June 30, 2005 and 2004.

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 accounting estimates that require management's most difficult and subjective judgments include the valuation of inventory and the recognition and measurement of income tax assets and liabilities. 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 and warrants.

Recent Accounting Pronouncements

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

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

2. Line of Business and Concentrations

The Company is engaged in the manufacturing and marketing of equipment for research in university, hospital and industrial laboratories. The Company believes that it has only one reportable segment. Approximately 75% in 2005 and 77% in 2004 of sales are generated from the Vortex-Genie(R) 2 mixer excluding accessories.

Certain information relating to the Company's export sales and principal customers is as follows:

	2005	2004
Export sales (principally Europe and Asia)	$1,575,100	$1,502,100
Customers in excess of 10% of net sales:		
Largest in 2004 and 2003	830,800	878,000
Second largest in 2004 and 2003	598,500	614,600
Third largest (principal customer in 2005 only)	366,600	

Accounts receivable from these customers amounted to approximately 41% and 34% of total accounts receivable at June 30, 2005 and 2004.

The Company purchased approximately 35% and 28% of material from one supplier for the years ended June 30, 2005 and 2004. Another supplier accounted for 22% of material purchased for the year ended June 30, 2004.

3. Investment Securities

Details as to investment securities are as follows:

	Gross Cost or Amortized Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2005:			
Available for sale:			
Equity securities	$ 8,300	$ 10,000	$ 1,700
Mutual funds	678,300	669,000	(9,300)
Callable bonds	275,000	275,000	-
	$ 961,600	$ 954,000	$ (7,600)
Held-to-maturity:			

State and municipal bonds, due in one year or less	$ 57,700	$ 57,500	$ (200)
Certificate of deposit	15,000	15,000	-
	$ 72,700	$ 72,500	$ (200)

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

3. Investment Securities (Continued)

	Gross Cost or Amortized Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2004:			
Available for sale:			
Equity securities	$ 8,300	$ 8,100	$ (200)
Mutual funds	591,800	588,500	(3,300)
Callable bonds	150,000	150,000	-
	$ 750,100	$ 746,600	$ (3,500)
Held-to-maturity:			
State and municipal bonds, due in one year or less	$ 55,900	$ 55,800	$ (100)

4. Inventories

	2005	2004
Raw materials	$ 711,400	$ 611,000
Work-in-process	10,600	7,400
Finished goods	78,400	47,800
	$ 800,400	$ 666,200

5. Property and Equipment

	Useful Lives (Years)	2005	2004
Computer equipment	3-5	$123,000	$119,800
Machinery and equipment	3-7	340,100	294,100
Furniture and fixtures	4-10	80,600	77,800
Leasehold improvements	5	35,200	35,200
		578,900	526,900
Less accumulated depreciation and amortization		442,800	386,400
		$136,100	$140,500

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

6. Bank Line of Credit

The Company has an available $200,000 secured bank line of credit which bears interest at prime collateralized by all the assets of the Company. The Company did not utilize this credit line during the years ended June 30, 2005 and 2004. To support the line of credit, the Company would be required to maintain 20% of the credit line in average monthly balances.

7. Employee Benefit Plan

The Company has a 401(k) profit sharing plan for all eligible employees as defined in the Plan. The Plan provides for voluntary employee salary contributions not to exceed the statutory limitation provided by the Internal Revenue Code. The Company shall match 50% of each participant's salary deferral election, up to a maximum amount for each participant of 2% of their compensation. Employer matching contributions to the Plan amounted to $9,600 in 2005 and $12,400 in 2004. The Company also has the option to make an additional profit sharing contribution to the Plan. There was no profit sharing contribution in either year.

8. Commitments and Contingencies

Lease

The Company is obligated through January 2010 under a noncancelable operating lease for its premises, which requires current minimum annual rental payments of approximately $155,000 and certain other expenses, including real estate taxes and insurance.

The Company's approximate future minimum rental payments under the above lease are as follows:

	Fiscal Years
2006	$ 172,100
2007	179,000
2008	186,100
2009	193,600
Thereafter	115,800
	$ 846,600

In accordance with generally accepted accounting principles, the future minimum annual rental expense, computed on a level basis, will be approximately $182,800 under the terms of the lease. Rental expense amounted to approximately $217,600 in 2005 and $242,300 in 2004. Accrued rent, payable in future years, amounted to $19,700 and $11,300 at June 30, 2005 and 2004.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

8. Commitments and Contingencies (Continued)

Employment Contracts

Pursuant to an expired employment contract with its former President, the former President chose that a portion of compensation earned in prior years be deferred to future years. The deferred amounts were placed in a separate investment account and all earnings and losses thereon are for his benefit. As of June 30, 2005 and 2004, $38,800 and $54,000 was segregated into such an account and is included as an asset. The balance due to him is payable out of (but not secured by) the account, in five equal annual installments as adjusted by market fluctuations commencing after the termination of employment. For the years ended June 30, 2005 and 2004, $19,600 and $17,400, respectively were paid to the former President.

The Company has employment contracts with its President and Executive Vice President expiring on December 31, 2006, providing for annual base salaries of $110,000 and $105,000, respectively.

Other

A financial advisor employed by the Company pursuant to an engagement letter that was not extended by the Company beyond its expiration date of March 31, 2002 asserted a claim against the Company in April 2002 in the amount of $125,000 for alleged services rendered to the Company that were alleged to be outside the scope of the letter. The Company denies engaging the financial advisor for any services outside the scope of the engagement letter or that any amounts are owing to the advisor. The Company's counsel has advised the Company that based on its review of the engagement letter and the Company's denial, it is unlikely that the financial advisor will prevail if it institutes a legal proceeding. Accordingly, no provision for loss has been recorded by the Company at June 30, 2005.

During the year ended June 30, 2003, the Company entered into a consulting agreement through December 31, 2004 with an affiliate of a member of its Board of Directors for marketing consulting services. The agreement provides that the consultant will be paid a monthly fee of $3,000 for a certain number of consulting days as defined in the agreement. On March 22, 2005, the agreement was amended to provide, among other things, for an extension through December 31, 2006 at the same monthly fee.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

9. Income Taxes

Income taxes (benefit) for 2005 and 2004 were different from the amounts computed by applying the Federal income tax rate to the income before income taxes due to the following:

	2005		2004	
	Amount	%of Pre-tax Income	Amount	% of Pre-tax Income
Computed "expected" income tax	$ 143,800	34.0%	$ 110,700	34.0%
Research and development credits	(13,000)	(3.1)	(31,700)	(9.7)
State income taxes, net of Federal effect	10,700	2.5	6,500	2.0
Other, net	(23,000)	(5.4)	(8,500)	(2.6)
Actual income taxes	118,500	28.0%	$ 77,000	23.7%

Deferred tax assets and liabilities consist of the following:

	2005	2004

Deferred tax assets:		
Amortization of intangibles	$ 10,500	$ 9,700
Deferred compensation	13,300	18,400
Rent accrual	6,800	3,800
Tax credit carry forwards	16,200	59,500
Other	26,200	17,300
	73,000	108,700
Deferred tax liability:		
Depreciation of property and equipment	(27,000)	(20,900)
Net deferred tax assets	$ 46,000	$ 87,800

At June 30, 2005, the Company had tax credit carryforwards of approximately $16,200 expiring in 2024 through 2025.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

10. Stock Options and Warrant

Option activity is summarized as follows:

	Fiscal 2005		Fiscal 2004	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Shares under option:				
Outstanding, beginning of year	142,000	$ 1.52	147,000	$ 1.47
Granted	-	-	10,000	1.28
Exercised	(4,666)	1.27	(15,000)	.86
Forfeited	(6,000)	1.31	-	-
Outstanding, end of year	131,334	1.54	142,000	1.52
Options exercisable, year-end	125,668	$ 1.55	132,333	$ 1.54
Weighted average fair value per share of options granted durign fiscal 2005 and 2004		$ -		$ .53

	As of June 30, 2005 Options Outstanding			As of June 30, 2005 Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Exercise Price
$1.20-$2.40	102,334	4.23	$1.74	96,668	$1.77
$.82-$.84	29,000	4.14	.84	29,000	.84
	131,334			125,668	

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

10. Stock Options and Warrant (Continued)

During the year ended June 30, 2005, options were exercised for a total of 4,666 shares of Common Stock at $1.20 to $1.31 per share.

During the year ended June 30, 2004 options were exercised under the Prior Plan to acquire a total of 15,000 shares of Common Stock at $.81 to $.94 per share.

The ten-year options granted in February 1992 (before the adoption of the Prior Plan), to four non-employee members of the board of directors, for each to purchase 12,000 shares of Common Stock, at an exercise price of $.35 have been exercised.

The Company has a stock purchase warrant outstanding covering 17,390 shares of the Company's common stock issued during 2001 for services. The warrant which was immediately exercisable has an exercise price of $1.4375 per share and expires on February 5, 2006. During the years ended June 30, 2005 and 2004, the warrant was not exercised.

11. Earnings Per Common Share

Earnings per common share data was computed as follows:

	2005	2004

Net income	$ 304,500	$ 248,700
Weighted average common shares outstanding	978,008	965,230
Effect of dilutive securities, stock options and warrant	73,031	53,580
Weighted average dilutive common shares outstanding	1,051,039	1,018,810
Basic earnings per common share	$ .31	$ .26
Diluted earnings per common share	$ .29	$ .24

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004

12. Fair Value of Financial Instruments

The financial statements include various estimated fair value information as of June 30, 2005 and 2004, as required by Statement of Financial Accounting Standards 107, "Disclosure about Fair Value of Financial Instruments." Such information, which pertains to the Company's financial instruments, is based on the requirements set forth in that statement and does not purport to represent the aggregate net fair value of the Company. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

The carrying value of cash and cash equivalents and investment securities approximates fair market value because of the short maturity of those instruments.

The following table provides summary information on the fair value of significant financial instruments included in the financial statements:

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				

Cash and cash equivalents	$ 183,900	$ 183,900	$241,400	$241,400
Investment securities (Note 3)	$1,026,700	$1,026,500	$802,500	$802,400