SCIENTIFIC INDUSTRIES INC
Form 10QSB
May 15, 2007

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

FORM 10-QSB

(Mark One)
X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended MARCH 31, 2007

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

For the transition period from to

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.
(Exact name of small business as specified in its charter)

DELAWARE	04-2217279
(State of incorporation)	(IRS Employer Identification No.)

70 ORVILLE DRIVE, BOHEMIA, NEW YORK 11716
(Address of principal executive offices)

(631)567-4700
(Issuer's telephone number)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 4, 2007: 1,129,352 shares outstanding of the Company's Common Stock, par value, $ .05.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [x]

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS

	March 31, 2007
Current Assets:	
Cash and cash equivalents	$ 404,400
Investment securities	766,700
Trade accounts receivable, less allowance for doubtful accounts of $11,600	658,200
Inventories	1,071,900
Prepaid expenses and other current assets	65,400
Deferred taxes	24,700
Total current assets	2,991,300
Property and equipment at cost, less accumulated depreciation of $532,400	258,400
Intangible assets, less accumulated amortization of $115,800	631,500
Other	45,700
Total assets	$3,926,900

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	$ 168,800
Customer advances	120,000
Accrued expenses and taxes	374,900
Total current liabilities	663,700
Deferred taxes	3,000
Negative goodwill	50,000
Shareholders' equity:	
Common stock, $.05 par value; authorized 7,000,000 shares; 1,149,154 issued and outstanding	57,500
Additional paid-in capital	1,402,300
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(5,000)
Retained earnings	1,807,800
	3,262,600
Less common stock held in treasury, at cost, 19,802 shares	52,400
	3,210,200
	$3,926,900

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended March 31, 2007	2006	For the Nine Month Periods Ended March 31, 2007	2006
Net sales	$1,341,000	$ 919,400	$3,407,200	$2,737,500
Cost of goods sold	826,600	472,100	2,017,400	1,368,800
Gross profit	514,400	447,300	1,389,800	1,368,700
Operating Expenses:				
General & administrative	279,500	176,700	651,700	563,400
Selling	114,100	54,600	262,900	185,000
Research & development	66,000	72,900	234,400	243,100
	459,600	304,200	1,149,000	991,500
Income from operations	54,800	143,100	240,800	377,200
Interest & other income, net	10,000	12,600	41,800	31,000
Income before income taxes	64,800	155,700	282,600	408,200
Income tax expense (benefit):				
Current	25,400	41,500	95,000	98,400
Deferred	(2,400)	12,000	(900)	21,000
	23,000	53,500	94,100	119,400
Net income	$ 41,800	$ 102,200	$ 188,500	$ 288,800
Basic earnings per common share	$ .04	$ .10	$ .18	$ .29
Diluted earnings per common share	$ .03	$ .10	$ .17	$ .27
Cash dividends declared per common share	$ -	$ -	$ .07	$ .09

See notes to unaudited condensed consolidated financial statements

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

	For the Nine Month Periods Ended March 31, 2007	March 31, 2006
Operating activities:		
Net income	$ 188,500	$ 288,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain (loss) on sale of investments	(200)	2,500
Depreciation and amortization	146,600	61,800
Deferred income taxes	(900)	21,000
Income tax benefit of stock options exercised	-	4,400
Changes in assets and liabilities:		
Accounts receivable	(227,000)	(8,900)
Inventories	242,700	(98,000)
Prepaid expenses and other current assets	46,100	(40,400)
Other assets	18,100	19,400
Accounts payable	(148,100)	8,300
Customer advances	(131,800)	-
Accrued expenses and taxes	91,300	(25,100)
Deferred compensation	-	(19,400)
Total adjustments	36,800	(74,400)
Net cash provided by operating activities	225,300	214,400
Investing activities:		
Acquisition of Altamira Instruments, Inc., net	(346,500)	-
Purchase of investment securities, available-for-sale	(17,500)	(339,200)
Redemptions of investment securities, available-for-sale	425,700	123,900
Redemptions of investment securities, held to maturity	-	72,300
Capital expenditures	(35,500)	(24,900)
Purchase of intangible assets	(12,800)	(4,600)
Net cash provided by (used in) investing activities	13,400	(172,500)
Financing activities:		
Exercise of stock options	8,000	11,500
Cash dividends declared and paid	(70,000)	(89,100)
Net cash used in financing activities	(62,000)	(77,600)
Net increase (decrease) in cash and cash equivalents	176,700	(35,700)
Cash and cash equivalents, beginning of year	227,700	183,900
Cash and cash equivalents, end of period	$ 404,400	$ 148,200

Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	$ 99,900	$ 112,900

See notes to unaudited condensed consolidated financial statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-QSB. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-KSB, for the fiscal year ended June 30, 2006. The results for the three and nine months ended March 31, 2007, are not necessarily an indication of the results of the full fiscal year ending June 30, 2007.

1. Significant accounting policies:

Principles of consolidation:

The accompanying condensed consolidated financial statements include the accounts of the Company and its subsidiaries: Scientific Packaging Industries, Inc., a New York corporation and an inactive wholly owned subsidiary of the Company, and since November 30, 2006 when it was acquired, Altamira Instruments, Inc. ("Altamira"), a Delaware corporation and wholly owned subsidiary of the Company. All intercompany items and transactions have been eliminated in consolidation.

2. Acquisition of Altamira Instruments, Inc.:

On November 30, 2006, the Company acquired the outstanding capital stock of Altamira, a privately held Delaware corporation engaged from its facility in Pittsburgh, Pennsylvania, in the production and sale of a variety of custom catalyst research instruments. The acquisition was pursuant to a Stock Purchase Agreement dated as of November 30, 2006 (the "Agreement") whereby the Company paid or issued to the then holders of the capital stock of Altamira $400,000 in cash and 125,000 shares of Common Stock and agreed to make additional cash payments equal to 5%, subject to possible adjustment, of the net sales of Altamira for each of five periods - the first period is December 1, 2006 through June 30, 2007, the next three are the years ending June 30, 2008, June 30, 2009 and June 30, 2010 and the fifth period is July 1, 2010 through November 30, 2010.

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

In conjunction with the acquisition of Altamira, management of the Company, with the assistance of an independent valuation firm, valued the tangible and intangible assets acquired, including goodwill, customer relationships, non-compete agreements, and certain technology, trade names and trade marks. The carrying amounts of goodwill and other intangible assets are presented in "Note 8. Goodwill and Other Intangible Assets" which represent the valuations performed in conjunction with the acquisition. In addition, other fair market value adjustments were made in conjunction with the acquisition, primarily adjustments to property and equipment, and inventory. The Company anticipates that an election will be made to treat the acquisition of Altamira stock as a purchase of assets. If the election is not made under the Internal Revenue Code, a deferred tax liability of approximately $325,000 would have to be recorded along with a corresponding increase to goodwill.

The acquisition was recorded under the purchase method of accounting. The preliminary net purchase price has been allocated to assets acquired and liabilities assumed based on their estimated fair market values at the date of the acquisition. The preliminary allocation of the net purchase price was as follows:

Current Assets	$ 734,000
Property and Equipment	140,300
Non-current Assets	25,100
Negative Goodwill	(91,500)
Other Intangible Assets	639,000 *
Current Liabilities	(561,900)
Preliminary Net Purchase Price	$ 885,000

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

Pro forma results

The unaudited pro forma condensed financial information in the table below summarizes the combined results of operations of

Scientific Industries, Inc. ("Scientific") and Altamira, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented. The unaudited pro forma condensed financial information presented below is for informational purposes only and is not intended to represent or be indicative of the consolidated results of the operations that would have been achieved if the acquisition had been completed as of the beginning of each period:

	For the Three Month Period Ended March 31,	For the Nine Month Period Ended March 31,	
	2006	2007	2006
Net Sales	$1,050,000	$4,432,600	$3,465,500
Net income	$ 70,300	$ 289,000	$ 133,300
Net income per share - basic	$ .06	$ .26	$ .12
Net income per share - diluted	$ .06	$ .24	$ .11

3. Line of Business and Concentrations:

As a result of the acquisition of Altamira, the Company now 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 ("laboratory equipment operations"), and the manufacture and marketing of custom-made catalyst research instruments for research in universities, government laboratories, and chemical and pretrochemical companies sold on a direct basis ("catalyst research instruments operations"). Substantially all of the management and employees of Altamira were retained following the acquisition.

Segment information is reported as follows:

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2007	2006	2007	2006
Net Sales:				
Laboratory equipment	$ 929,100	$ 919,400	$2,619,000	$2,737,500
Catalyst research instruments	411,900	-	788,200	-
Net Income:				
Laboratory equipmen	$ 117,200	$ 102,200	$ 303,600	$ 288,800

Catalyst research instruments	(75,400)	-	(115,100)	-

Segment Assets:	March 31, 2007
Laboratory equipment	$2,547,800
Catalyst research instruments	1,379,100

Long-lived asset expenditures:

Laboratory equipment	$ 35,500	-	$ 35,500	-
Catalyst research instruments	-	-	-	-

Approximately 69% and 73% of net sales of the laboratory equipment operations for the three month periods ended March 31, 2007 and 2006, respectively, and approximately 70% and 76% of net sales of the laboratory equipment operations for the nine month periods ended March 31, 2007 and 2006, respectively were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Of the laboratory equipment operations' net sales, two customers accounted for approximately 33% and 37% for the three and nine month periods ended March 31, 2007, respectively, and three customers accounted for 49% for each of the three and nine month periods ended March 31, 2006. Sales of the catalyst research instruments operations are to a limited number of customers who are purchasing instruments customized pursuant to the customer's specifications. Generally, the average order is more than $100,000. Accordingly, sales to five customers accounted in the aggregate for approximately 98% and three of the five accounted for 95% of the net sales of the operations for the nine and three month periods ended March 31, 2007, respectively.

The Company's consolidated export sales (principally Europe and Asia) were approximately $607,600 and $425,000 for the three month periods ended March 31, 2007 and 2006, respectively, and $1,543,400 and $1,208,000 for the nine month periods ended March 31, 2007 and 2006, respectively.

4. Inventories:

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

	March 31, 2007

Raw Materials	$ 795,900
Work in process	221,600
Finished Goods	54,400
	$ 1,071,900

5. Earnings per common share:

Basic earnings per common share are computed by dividing net income by the weighted-average number of shares outstanding. Diluted earnings per common share include the dilutive effect of stock options and a warrant which was exercised at the end of September, 2005.

Earnings per common share was computed as follows:

	For the Three Month Periods Ended March 31, 2007	2006	For the Nine Month Periods Ended March 31, 2007	2006
Net income	$ 41,800	$102,200	$ 188,500	$ 288,800
Weighted average common shares outstanding	1,128,641	995,652	1,057,089	988,972
Effect of dilutive securities	67,610	79,175	64,492	78,588
Weighted average dilutive common shares outstanding	1,196,251	1,074,827	1,121,581	1,067,560

Basic earnings per common share	$ .04	$ .10	$ .18	$ .29
Diluted earnings per common share	$ .03	$ .10	$ .17	$ .27

6. Comprehensive Income:

There was no significant difference between net income and comprehensive income for the three and nine month periods ended March 31, 2007 and 2006.

7. Stock-Based Compensation Plans:

The Company maintains an Incentive Stock Option Plan which through the fiscal year ended June 30, 2006 the grants were accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under this method, no stock-based compensation costs were reflected in net income, as all options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123(R), "Accounting for Stock-Based Compensation," to stock-based employee compensation in the prior period:

	For the Three Months Ended March 31, 2006	For the Nine Months Ended March 31, 2006
Net income:		
As reported	$102,200	$288,800
Pro Forma	102,200	287,900
Earnings per common and common equivalent share:		
Basic - as reported	$ .10	$ .29
Basic - pro forma	$ .10	$ .29
Diluted - as reported	$ .10	$ .27
Diluted - pro forma	$ .10	$ .27

Any stock-based compensation transaction subsequent to June 30, 2006 is to be accounted for using Statement of Financial Accounting Standards No. 123(R). This statement, issued on December 16, 2004, by the Financial Accounting Standards Board, requires compensation costs related to stock-based payment transactions to be recognized commencing with the first reporting period in our fiscal year ending June 30, 2007. 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 will be measured each reporting period. Compensation costs are recognized over the period that an employee provides service in exchange for the award. 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. The Company incurred stock-based compensation costs of $4,000 for the three and nine months ended March 31, 2007.

8. Goodwill and Other Intangible Assets

In conjunction with the acquisition of Altamira, management of the Company, with the assistance of an independent valuation firm, valued the tangible and intangible assets acquired, including customer relationships, non-compete agreements and technology which encompasses trade names, trade marks and licenses. The valuation resulted in an initial negative goodwill of approximately $91,500 on the date of acquisition. However, the Stock Purchase Agreement provides for contingent future payments based on net catalyst research instrument operations sales subject to certain limits, which are expected to be earned and paid and the negative goodwill is eventually expected to be fully eliminated. Management estimates that the acquisition of Altamira will ultimately result in goodwill of approximately $300,000 to $400,000. As of March 31, 2007 the negative goodwill, which has been classified as a deferred credit, was reduced to $50,000 mostly as a result of additional contingent consideration earned.

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets,", goodwill and other intangible assets are tested for impairment on an annual basis, or earlier if indicators of impairment exist. As of March 31, 2007, the Company determined that there were no current indicators of impairment. In assessing the recoverability of goodwill and purchased intangible assets, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. It is reasonably possible that these estimates, or their related assumptions, may change in the future, in which event we may be required to record impairment charges for these assets.

The Company's other intangible assets are amortized using straight line and accelerated amortization methods based on expected benefits derived from each intangible asset.

The components of intangible assets as of March 31, 2007 were as follows:

	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Amortizable Amount
Technology	5 yrs.	$300,000	$ 20,000	$280,000
Customer relationships	10 yrs.	237,000	24,000	213,000
Non-compete agreement	5 yrs.	102,000	6,800	95,200
Other intangible assets	5 yrs.	108,300	65,000	43,300
		$747,300	$115,800	$631,500

Total amortization expense related to intangible assets was $39,400 and $59,600 for the three and nine months ended March 31, 2007, respectively, and $1,700 and $4,800 for the three and nine months ended March 31, 2006, respectively. As of March 31, 2007, estimated future amortization expense related to intangible assets is $39,000 for the remainder of fiscal 2007, $147,400 for fiscal 2008, $132,600 for fiscal 2009, $122,900 for fiscal 2010, $101,400 for fiscal 2011, $55,800 for fiscal 2012 and $32,400 thereafter.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Certain statements contained in this report are not based on historical facts, but are forward-looking statements that are based upon various assumptions about future conditions. Actual events in the future could differ materially from those described in the forward-looking information. Numerous unknown factors and future events could cause such differences, including but not limited to, product demand, market acceptance, impact of competition, the ability to reach final agreements, the ability to produce and finance catalyst research instruments to customers' satisfaction, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control. Consequently, no forward-looking statement can be guaranteed.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Liquidity and Capital Resources

Cash and cash equivalents increased by $176,700 to $404,400 as of March 31, 2007 from $227,700 as of June 30, 2006.

Net cash provided by operating activities was $225,300 for the nine month period of the current fiscal year as compared to $214,400 in the comparative period for 2006, mainly the result of higher balances of accounts receivable, accounts payable and customer advances partially offset by higher inventories and accrued expenses. Cash provided by investing activities was $13,400 for the current nine month fiscal period as compared to cash used of $172,500 for the nine months ended March 31, 2006, primarily the result of net cash of $346,500 used in connection with the acquisition of Altamira, and larger redemptions of investment securities due to cash needed for the acquisition.

Net cash used in financing activities reflected a cash dividend of $.07 per share of Common Stock which was paid on January 12, 2007 to holders of record as of the close of business on October 30, 2006.

The Company's working capital of $2,327,600 as of March 31, 2007 decreased $161,500 from the working capital of $2,489,100 at June 30, 2006, mostly due to the acquisition. 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 March 31, 2007. The Company has never borrowed under this line of credit. Management believes that the Company will be able to meet its cash flow needs during the next 12 months from its available financial resources which include its cash and investment securities.

Results of Operations

Financial Overview

As previously reported, the Company acquired on November 30, 2006, 100% of the outstanding capital stock of Altamira, and therefore the results of Altamira from the date of acquisition are reflected in the consolidated results of the Company. In addition, the consolidated results reflect certain adjustments related to the recording of the acquisition, including adjustments of inventory and fixed assets to fair market values, purchased intangible assets, and related depreciation and amortization.

The Three Months Ended March 31, 2007 Compared with the Three Months Ended March 31, 2006.

The Company's net sales for the three months ended March 31, 2007 increased by $421,600 (45.9%) to $1,341,000 as compared with $919,400 for the three months ended March 31, 2006 as a result of the addition of the sales of the catalyst research instrument operations. Net sales of the laboratory equipment operations increased slightly by $9,700 (1.1%) despite the discontinuance of purchases by a major customer and laboratory equipment distributor. The catalyst research instruments' revenues, unlike those of the laboratory equipment operations, are subject to great volatility from period to period because revenues for the catalyst research instruments are mostly comprised of a small number of large orders, which typically average more than $100,000 each.

The gross profit percentage for the three months ended March 31, 2007 decreased to 38.4% as compared to 48.7% for the three months ended March 31, 2006. At the date of Altamira's acquisition, the work-in-progress was adjusted upwards to fair value so that the adjusted value would allow for the Company's profit allowance upon completing the manufacture of orders in process. All significant selling efforts were performed by Altamira prior to acquisition. The Company recognizes revenue upon shipment of goods, passage of title and customer acceptance. While revenue has been reported by the Company for Altamira's sales post-acquisition, a significant portion of the gross profit has been attributed to the period prior to acquisition - the effect of which reduced the gross profit for the period by $65,000. In addition, the gross profit for the catalyst research instruments operations may vary significantly depending on the type of order. The gross profit percentage for the laboratory equipment operations for the three months ended March 31, 2007 and March 31, 2006 was 51.2% and 48.7%, respectively, the increase resulting from lower price discounts.

General and administrative expenses for the three months ended March 31, 2007 were $279,500, an increase of $102,800 (58.2%) as compared with $176,700 for the three months ended March 31, 2006, primarily due to the addition of the general and administrative expenses incurred during the period by the newly-acquired catalyst research instruments operations and acquisition-related administrative integration costs.

Selling expenses for the three months ended March 31, 2007 totaled $114,100, an increase of $59,500 (109.0%) from $54,600 for the three months ended March 31, 2006, mainly due to the addition of the selling expenses of the acquired catalyst research instruments operations.

Research and development expenses for the three months ended March 31, 2007 decreased by $6,900 (9.5%) to $66,000 as compared to

$72,900 for the three months ended March 31, 2006 due to fewer outside engineering services for the laboratory equipment operations; no research and development expenses were incurred in the catalyst research instruments operations during the quarter.

The Company's income before income taxes was $64,800 for the three months ended March 31, 2007, a decrease of $90,900 (58.4%) as compared to $155,700 for the three months ended March 31, 2006.

Income taxes were $23,000 for the three months ended March 31, 2007 compared to $53,500 for the comparable period last year, mainly due to lower income.

The Company's net income was $41,800 for the three months ended March 31, 2007, a decrease of $60,400 (59.1%) as compared to $102,200 for the three months ended March 31, 2006.

The Nine Months Ended March 31, 2007 Compared with the Nine Months Ended March 31, 2006.

The Company's net sales for the nine months ended March 31, 2007 increased by $669,700 (24.5%) to $3,407,200 as compared with $2,737,500 for the nine months ended March 31, 2006 as a result of $788,200 of revenues of the acquired catalyst research instruments operations, partially offset by a $118,500 (4.3%) decrease in net sales of our laboratory equipment operations. The reduction in laboratory equipment operations sales was due to the discontinuance of purchases by a major customer and laboratory equipment distributor, partially offset by increased sales to other distributors and increased direct sales. The catalyst research instruments operations' revenues are subject to great volatility from period to period because they are mostly comprised of a few large orders, which typically average more than $100,000 each.

The gross profit percentage for the nine months ended March 31, 2007 decreased to 40.8% as compared to 50.0% for the nine months ended March 31, 2006. At the date of the Altamira acquisition, the work-in-progress was adjusted upwards to fair value so that the adjusted value would allow for the Company's profit allowance upon completing the manufacture of orders in process. All significant selling efforts were performed by Altamira prior to acquisition. The Company recognizes revenue upon shipment of goods, passage of title and customer acceptance. While revenues have been reported by the Company for the catalyst research instruments operations post-acquisition, a significant portion of the gross profit has been attributed to the period prior to acquisition, the effect of which was to reduce the gross profit for the period by $171,000. The gross profit percentage for the nine months ended March 31, 2007 for the laboratory equipment

operations was 51.2%, a slight increase from 50.0% for the comparable period last year, mostly as a result of lower price discounts.

General and administrative expenses for the nine months ended March 31, 2007 were $651,700, an increase of $88,300 (15.7%) from

$563,400 for the nine months ended March 31, 2006, primarily due to the addition of such expenses by the catalyst research instruments operations and acquisition-related administrative integration costs.

Selling expenses for the nine months ended March 31, 2007 totaled $262,900, an increase of $77,900 (42.1%) as compared with $185,000 for the nine months ended March 31, 2006 mainly due to the addition of the selling expenses incurred by the catalyst research instruments operations, partially offset by a reduction of selling expenses of the laboratory equipment operations due to lower salaries.

There was no material change in research and development expenses- $234,400 for the nine months ended March 31, 2007 compared with $243,100 for the prior year's nine month period. No research and development expenses for the catalyst research instruments operations were incurred during the post-acquisition period through March 31, 2007.

Interest and other income increased $10,800 (34.8%) to $41,800 for the nine months ended March 31, 2007 as compared with $31,000 for the nine months ended March 31, 2006 mainly due to higher interest rates and balances of investment securities for most of the 2007 period.

As a result of the above, the Company's income before income taxes was $282,600 for the nine months ended March 31, 2007, a decrease of $125,600 (30.8%) as compared to $408,200 for the nine months ended March 31, 2006.

Income taxes were $94,100 (33.3%) for the nine months ended March 31, 2007 compared to $119,400 (29.3%) for the comparable period last year, mainly due to lower income in the current period. The current period's tax rate was higher mainly due to smaller amounts of credits available.

The Company's net income was $188,500 for the nine months ended March 31, 2007, a decrease of $100,300 (34.7%) from $288,800 for the nine months ended March 31, 2006.

ITEM 3. 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 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.

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.

PART II   OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Number: Description

Exhibit Number	Description
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:
Registrant filed on March 16, 2007 a report on Form 8-K, reporting under Item 1.01.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Scientific Industries, Inc.
Registrant

/s/Helena R. Santos
____

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

Accounting Officer

Date: May 15, 2007