SCIENTIFIC INDUSTRIES INC
Form 10KSB
September 28, 2007

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, 2007

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. $4,880,000

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 August 24, 2007 is $1,791,500.

The number of shares outstanding of the issuer's common stock, par value $.05 per share ("Common Stock") as of August 24, 2007 is 1,145,352 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"), has been engaged (i) since its inception in 1954, in the design manufacture and marketing of standard benchtop laboratory equipment ("Benchtop Laboratory Equipment") and (ii) since the acquisition of Altamira Instruments, Inc., a Delaware corporation ("Altamira") on November 30, 2006, in the manufacture and marketing of customized catalyst research instruments ("Catalyst Research Instruments"). The Company's products are used primarily for research purposes by universities, hospitals, pharmaceutical companies, clinics, medical device manufacturers, petrochemical companies and other related industries.

The acquisition agreement and subsequent agreement with each Altamira seller provided for the Company to pay $442,000 in cash, 125,000 shares of the Company's Common Stock and to pay additional cash equal in the aggregate to 5%, subject to adjustment, of Altamira's net sales for each of the following periods - December 1, 2006 to June 30, 2007, each of the 12 month periods ending respectively on June 30, 2008, June 30, 2009 and June 30, 2010; and July 1, 2010 to November 30, 2010. The payment for the first period amounted to approximately $66,000.

Products.

Benchtop Laboratory Equipment. The Company's Benchtop Laboratory Equipment consists of mixers and disruptors, rotators/rockers, refrigerated incubators and magnetic stirrers. The Vortex-Genie(R) 2 Mixer is the Company's primary product and sales of this product (excluding accessories) represented approximately 70% of the sales of the Company's Benchtop Laboratory Equipment, or 51% of the total sales for the fiscal year ended June 30, 2007 ("fiscal 2007"). Sales of this product accounted for approximately 72% of the total sales for the fiscal year ended June 30, 2006 ("fiscal 2006").

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.

Additional mixers and disruptors include the Vortex-Genie 1, a high speed touch mixer; the Vortex-Genie 2T, a mixer with an integral timer; the Disruptor Genie(R), a patented cell disruptor; the MicroPlate Genie(R) and Multi-MicroPlate Genie(R) mixers, specialty mixers designed to mix and vortex the contents of microplates; and the Digital Vortex-Genie 2, a vortex mixer incorporating digital control and display (launched during fiscal 2007).

The Company's Roto-Shake Genie(R), a patented benchtop multi-purpose rotator/rocker was 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 is a multi-functional benchtop environmental chamber designed to perform various functions under controlled environmental conditions of temperature.

The Benchtop Laboratory Equipment also includes a complete line of magnetic stirrers including the MagStir Genie(R), a patented high/low programmable magnetic stirrer; the MultiMagStir Genie(R), a four-place high/low programmable magnetic stirrer; the MegaMag Genie(tm), a large volume magnetic stirrer available in analog and digital versions (both versions introduced in fiscal 2007); and the QuadMag Genie(tm) magnetic stirrer, a four-place powerful general purpose stirrer (introduced in fiscal 2007).

Catalyst Research Instruments. The Catalyst Research Instruments are offered through the Company's new subsidiary, Altamira. The AMI-200(tm) is Altamira's flagship product. The AMI-200 is used to perform traditional catalyst characterization experiments on an unattended basis. The instrument also features a stand-alone personal computer to control the instrument and incorporates proprietary LabVIEW(R)-based software. All AMI model instruments can be customized to a customer's individual requirements.

The Catalyst Research Instruments also include reactor systems, high throughput systems and micro-activity reactors. The Company's BenchCAT(tm) custom reactor systems are available with single and multiple reactor paths and with reactor temperatures up to 1200 degrees celsius. These systems feature multiple gas flows, and are also available in gas and gas/liquid configurations. They also feature one or more stand-alone personal computers with the LabVIEW(R)-based control software.

The Company also offers, under a license with Symyx Corporation, the Celero(tm) high throughput system, designed to provide high throughput screening in multiples of 8 channels. This instrument is typically used to screen multiple catalysts, under the same conditions of temperature, pressure, and gas/liquid flows.

Under an exclusive distribution agreement covering North and South America, with PID Eng. & Tech in Spain, the Company markets the PID MA-Reference Reactor, which is a highly-automated, micro-activity reactor featuring sophisticated microprocessor control with touch-screen and TCP/IP Ethernet communications. This product is used for catalyst activity, selectivity, optimization and kinetics studies.

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

Major Customers. Sales during fiscal 2007 to VWR International, principally of the Company's Vortex-Genie 2 Mixer, represented approximately 16% of total sales for the year, as compared to sales representing approximately 20% of total sales for fiscal 2006 to the Company's previous principal customer and distributor, Thermo Fisher Scientific, Inc. ("Fisher"), which discontinued any further purchases from the Company at the conclusion of fiscal 2006. In addition, sales to one additional customer of Benchtop Laboratory Equipment aggregated approximately 7% and 10% of total sales for fiscal 2007 and fiscal 2006, respectively. Sales of Catalyst Research Instruments are generally comprised of a few very large orders amounting on average to over $100,000 to different customers, with no single customer representing over 10% of total sales for fiscal 2007.

Marketing.

Benchtop Laboratory Equipment. The Company's Benchtop Laboratory Equipment products are generally distributed and marketed through an established network of domestic and overseas laboratory equipment distributors, who sell the Company's products through printed catalogs, websites and sales force. See "Major Customers". The Company also markets products through attendance at industry trade shows, trade publication advertising, brochures and catalogs, and through the Company's website. Over the past year, the Company has increased direct-selling efforts, mainly through online ordering on the Company's website. 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.

Catalyst Research Instruments. The Company's Catalyst Research Instruments are sold directly worldwide to universities, government laboratories, and chemical and petrochemical companies. The Company also uses outside sales representatives (on a commission basis) to augment its internal sales activities. The Company markets these products through sales calls, attendance at various trade shows, Altamira's website, outside sales representatives, and printed materials.

Assembly and Production Materials. The Company has an operating facility in Bohemia, New York and, since November 30, 2006, one in Pittsburgh, Pennsylvania as a result of the recent acquisition. The Company's production operations principally involve assembly of components supplied by various domestic and international independent suppliers. The Company historically did not have sole suppliers, except as to a few components where it was not feasible to have multiple suppliers and where alternative suppliers are available. However, as of June 30, 2007, the Company is relying on only one supplier for a major component for the Vortex-Genie products due to poor quality and delivery times from a second source. While the Company is seeking an additional source for the component, it has maintained an abundant on-hand supply of this component. Over the last two fiscal years, the Company has purchased a substantial portion of components from overseas factories for its Benchtop Laboratory Equipment operations, with a significant part of such purchases effected through a U.S. vendor. (Purchases from the vendor accounted for approximately 17% and 44% for fiscal 2007 and fiscal 2006, respectively, of the Company's total material purchases.) See "Risk Factors - The Company is Heavily Dependent on Outside Suppliers for the Components of Its Products".

Patents, Trademarks, Licenses and Franchises.

Patents. The Company holds several United States patents relating to existing products. It licensed 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 expired on November 2, 2005; however, there has been no adverse effect to date on the Company's revenues as a result of the patent expiration. The Company's patent for the TurboMix, 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 recent patent granted on a design feature of the Company's MagStir Genie, MultiMagStir Genie, and Enviro-Genie expires in November 2022.

Trademarks. The Company has various proprietary marks, including AMI(tm), BenchCAT(tm), Celero(tm), Disruptor Beads(tm), Disruptor Genie(R), Enviro-Genie(R), Genie(tm), MagStir Genie(R), MegaMag Genie(tm), MicroPlate Genie(R), MultiMagStir Genie(R), Multi-MicroPlate Genie(R), QuadMag 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. The Company also has several trademark applications pending. No representation can be made that any application will be granted or as to the protection that any existing or future trademark may provide.

Licenses. The Company has several licensing agreements for technology and patents used in Company business. A non-exclusive worldwide sublicense from Fluorometrix Corporation relates to the development, production and marketing of a line of bioreactor vessels, including culture bags with integral sensors for pH and oxygen in volumes of 250 milliliters up to 5 liters for laboratory incubator systems. Development of a line of products under this sublicense has commenced. The Company also licenses the technology related to its patent for the Roto-Shake Genie from a local university, and licenses a patent related to its TurboMix attachment for the Vortex-Genie and Disruptor

Genie from an independent inventor. Altamira has a license with respect to technology related to the Celero line of products from Symyx Corporation.

Foreign Sales. The Company's sales to overseas customers, including distributors, (principally Asia and Europe) accounted for approximately 46% of the Company's total net sales for fiscal 2007 and 44% for fiscal 2006. Such sales are paid in United States dollars and are therefore not subject to risks of currency fluctuation, foreign duties and customs.

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

Backlog. The Company's backlog for its Benchtop Laboratory Equipment products is not significant because this line of products is comprised of standard catalog items. The typical lead time for such orders is not more than two weeks. The Company's backlog for Catalyst Research Instruments as of June 30, 2007 was $590,000, which is expected to be fulfilled by the end of the second quarter of the fiscal year ending June 30, 2008.

Competition. Most of the Company's competitors are substantially larger and have greater financial, production and marketing resources than the Company. Competition is generally based upon technical specifications, price, and product recognition and acceptance. The Company's main competition for its Benchtop Laboratory Equipment in the United States derives from private label brand mixers offered by the two largest laboratory equipment distributors in the United States, who dominate the end user market, one of which is Fisher (see "Major Customers"). The Company believes the Company and its Benchtop Laboratory Equipment products are factors in the vortex mixers market in the United States and widely recognized in the international vortex mixers market as well.

In the general area of Benchtop Laboratory Equipment, the Company's major competitors are Troemner (private label supplier to the two largest laboratory equipment distributors in the U.S. and Europe), Barnstead/Thermolyne Corporation, (an Apogent Technologies company owned by Thermo Fisher Scientific, Inc.), IKA-Werke GmbH & Co. KG, a German company, and Heidolph Instruments GmbH, a German company.

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

Research and Development. In connection with the development of new products, the Company incurred research and development expenses, all of which relate to Benchtop Laboratory Equipment, of $302,100 during fiscal 2007 compared to $316,500 during fiscal 2006. No research and development expenses were incurred in connection with its Catalyst Research Instruments. The Company expects its expenditures in the fiscal year ending June 30, 2008 for research and development will not be materially different from the current fiscal year.

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 all its operations are in compliance with existing laws and regulations and the cost to comply is not significant to the Company.

Employees. As of August 24, 2007, the Company employed 30 persons (21 in Bohemia, New York and 9 in Pittsburgh, Pennsylvania) of whom 26 were full-time, including its two executive officers. None of the Company's employees is represented by any union.

Risk Factors

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

Dependence on a Major Customer

The laboratory equipment industry is dominated in the U.S. by two major laboratory equipment distributors, Thermo Fisher Scientific, Inc. ("Fisher") and VWR International. During the fourth quarter of fiscal 2006, the Company was informed by Fisher that it would no longer market the Company's products. As a result, there were no sales of the Company's products to Fisher since the fourth quarter of fiscal 2006. Sales to this former major customer, mostly the Vortex-Genie 2 Mixer, represented approximately 20% of total net sales for fiscal 2006. As a result of increased direct selling efforts and increased distribution through the Company's other existing distributors and new distributors, the Company for fiscal 2007 was able to generate sufficient additional revenues to enable it to recoup the majority of the lost revenues. The Company's current largest customer accounted for approximately 16% of the Company's total net sales in fiscal 2007 (22% of Benchtop Laboratory Equipment sales) and 17% in fiscal 2006. A material reduction in sales to this major customer could have an adverse effect on the results of operations of the Company.

The Company Offers a Limited Number of Products with Sales of One Product Accounting for a Substantial Portion of its Revenues

The Company has a limited number of Benchtop Laboratory Equipment products with one product, the Vortex-Genie 2 Mixer accounting for approximately 70% and 72% of total Benchtop Laboratory Equipment sales, for fiscal 2007, and fiscal 2006, respectively.

The Company is A Small Participant in A Highly Competitive Laboratory Equipment Industry

The Benchtop Laboratory Equipment 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 for these products ($3,558,100 for fiscal 2007 and $3,465,200 for fiscal 2006) are significantly 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 continuous new entrants into the vortex mixer market, including the manufacturer of the industry's two largest distributors' private label mixers.

The production and sales of Catalyst Research Instruments is highly competitive. The Company competes with many laboratories which produce their own instruments and several companies with greater resources.

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 began pursuing a program to develop and market new laboratory equipment products with a view to increasing revenues of such products and reducing the Company's dependence on the Vortex-Genie 2 Mixer. As a result, the Company now offers a more extensive line of Benchtop Laboratory Equipment products. However, the Company still needs to continuously develop and introduce new products in order to grow this segment of the business.

Revenues derived from new Benchtop Laboratory Equipment products (those other than the Vortex-Genie 2 Mixer, but excluding accessories) amounted to $838,500 and $737,100, respectively, for fiscal 2007 and fiscal 2006. The Company relies primarily on distributors and their catalogs to market such products. Sales of new products are heavily dependent on the distributors' decision to include a new product in the distributors' catalogs and their continued inclusion in the catalogs and on their 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.

No assurance can be given that the amounts allocated by the Company for its development and marketing programs will prove beneficial or that distributors will include any particular product in their catalogs and websites.

In June 2006, the Company received a nonexclusive sublicense to develop, produce and sell a line of bioreactor vessels with integral sensors for pH and oxygen in volumes of 250 milliliters up to 5 liters for laboratory systems under a license from the University of Maryland, Baltimore County, the patent holder. The Company is engaged in the development of certain products which incorporate the disposable sensor technology. No assurance can be made that such development will be completed or that it will result in material revenues.

The Company's new Catalyst Research Instruments line of products is limited to a few products. In order to remain competitive and grow this line of business, the Company needs to make engineering improvements to existing products and develop and add new products incorporating more current technology in the catalyst research area.

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

Orders for the Company's products, particularly new Catalyst Research Instruments, depend in part, on a customer's ability to secure funds. Available funds can be affected by budgetary constraints and the ability to obtain grants. Factors such as a general economic recession or another major terrorist attack could have a negative impact on corporate funding and grants.

The Company's ability to secure new orders can also be effected by changes in U.S. and international policies pertaining to energy and the environment.

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

Due to poor quality and delivery times from the Company's former second supplier, the Company has only one supplier for a major component of the Vortex-Genie products. While the Company is seeking an additional supplier for this component, it has maintained an abundant on-hand supply of this component; however, there can be no assurance that the Company will be successful in securing a second supplier of this component.

While the Company believes there are several suppliers available for most of its components, it presently relies on one supplier for several components relating to the Company's Benchtop Laboratory Equipment. Purchases through a United States vendor from one overseas supplier accounted for approximately 17% and 44% of the cost of total purchased materials for fiscal 2007 and fiscal 2006, respectively, and 22% and 44% of the Benchtop Laboratory Equipment purchases. While the Company believes there are other sources for the components purchased from overseas readily available, the disruption or termination of the operations of this source or other sources could have an adverse effect, hopefully of short duration, on the Company's results of operations. To diminish this risk, the Company keeps higher than normal quantities on-hand of such components, and has added several alternate suppliers during the past two years. Furthermore, the Company intends to continue purchasing components from overseas factories directly or indirectly. Such reliance could increase the risks of the Company's operations 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, expired in November 2005; however, the Company has not, to date, experienced any adverse effect from the expiration of this patent. A new patent was granted to the Company during fiscal 2006 for use in the MagStir Genie, MultiMagStir Genie, and Enviro-Genie products. The Company's ability to exploit a recently acquired sublicense with respect to a line of bioreactor vessels, which the Company has commenced developing, will be dependent on the validity of the licensor's patents.

The Company does not have any patent protection for its Catalyst Research Instruments, except for a line of products known as Celero under a licensing agreement, which is not a significant part of the business.

There can be no assurance that the Company will be successful in obtaining additional patents, that any patent issued or licensed to the Company provides or will provide the Company with competitive advantages or will not be challenged by third parties 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 patents related to the Company's products. 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.

The Company Has Limited Management Resources

The loss of the services of Ms. Helena Santos, the Company's Chief Executive and Financial Officer, and President, 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. In addition, the loss of Mr. Brookman March, Director of Marketing and Operations of the Company's new wholly-owned subsidiary, Altamira Instruments, Inc. could have a materially adverse impact on the Catalyst Research Instruments operations.

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 August 24, 2007, there were only 1,145,352 shares of Common Stock of the Company outstanding, of which 427,865 shares were held by the directors and officers of the Company. There have been a number of trading days during fiscal 2007 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 principal 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. In addition, the recen tly acquired Altamira subsidiary leases approximately 6,600 square feet of office, assembly, and testing space at 149 Delta Drive, Pittsburgh, Pennsylvania 15238, for its Catalyst Research Instruments operations, pursuant to a lease expiring July 2011. This lease has an early-termination clause that requires a 180 day notice in the event of an early termination. See Note 10 to the Financial Statements in Item 7 for further information on both leases. The leased facilities are suitable and adequate for the Company's operations. In the opinion of management, all properties are adequately covered by insurance.

Item 3. Legal Proceedings.

The Company is not a party to any pending legal proceedings. 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 2007.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

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 2006 and fiscal 2007, 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
09/30/05	2.76	3.30
12/31/05	3.00	3.95
03/31/06	3.15	4.10
06/30/06	2.50	4.30
09/30/06	2.60	2.95
12/31/06	2.71	3.25
03/31/07	2.90	3.75
06/30/07	2.86	3.35

(a) As of August 24, 2007, there were 814 record holders of the Company's Common Stock.

(b) On January 12, 2007, the Company paid a cash dividend of $.07 per share to stockholders of record on October 30, 2006. The Company is not subject to any agreement which prohibits or restricts the Company from paying dividends on its Common Stock.

On September 20, 2007, the Board of Directors declared a cash dividend of $.07 per share of Common Stock payable on January 14, 2008 to holders of record as of the close of business on October 18, 2007.

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

Overview. As a result of the Company's acquisition on November 30, 2006 of Altamira, the Company's consolidated results for fiscal 2007 include the results of Altamira from the date of the acquisition. In addition, the consolidated results reflect certain adjustments related to the recording of the acquisition, including one-time adjustments to inventory and property and equipment to market values, newly purchased intangible assets and resulting goodwill, and the depreciation and amortization for the newly acquired assets.

Results of Operations. Net sales for fiscal 2007 increased by $1,414,800 (40.8%) to $4,880,000 as compared with $3,465,200 for fiscal 2006 as a result of the additional revenues from the newly acquired Catalyst Research Instruments operations as of November 30, 2006. Net sales related to the Company's Benchtop Laboratory Equipment operations increased by $92,900 (2.7%) despite the loss of a major customer at the end of fiscal 2006. Sales of the Catalyst Research Instruments differ from those of the Benchtop Laboratory Equipment in that sales of Catalyst Research Instruments are comprised of a small number of larger orders, typically averaging over $100,000 each. At the end of fiscal 2007, there was a backlog of $590,000 for Catalyst Research Instruments.

The gross profit percentage for fiscal 2007 decreased to 40.1% compared to 49.0% for fiscal 2006, mainly as a result of the lower gross profit percentage for the Catalyst Research Instruments operations whose products typically yield a gross profit ranging from 30% to 35%. In addition, the gross profit percentage was negatively affected because of a one-time acquisition related adjustment of $171,300. At the date of acquisition, Altamira's work-in-progress inventory 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. While the revenues related to the work-in-progress were reported by the Company subsequent to the acquisition, a significant portion of the gross profit was attributed to prior to acquisition.

The gross profit percentage for the Benchtop Laboratory Equipment operations for fiscal 2007 was virtually unchanged (48.9%

for fiscal 2007 and 49.0% for fiscal 2006).

General and administrative expenses for fiscal 2007 increased by $161,200 (22.4%) to $880,100 from $718,900 for fiscal 2006 mainly as a result of the general and administrative expenses related to the newly-acquired Catalyst Research Instruments operations and acquisition-related administrative costs.

Selling expenses for fiscal 2007 increased by $155,300 (65.2%) to $393,500 from $238,200 for fiscal 2006, primarily as a result of the selling expenses related to the Catalyst Research Instruments operations. Selling expenses for the Benchtop Laboratory Equipment operations were approximately at the same level for both fiscal years.

Research and development expenses for fiscal 2007 decreased by $14,400 (4.5%) from $316,500 for fiscal 2006 to $302,100 for fiscal 2007, due to lower outside engineering service costs. The Company's Catalyst Research Instruments operations did not incur any research and development expenses.

Other income increased by $11,000 (24.9%) to $55,100 from $44,100 mostly as a result of higher returns on the Company's investment securities.

Total income tax expense for fiscal 2007 was $123,100 (28.3%) compared to $147,300 (31.4%) for fiscal 2006 primarily due to lower income in the current year and other minor adjustments.

As a result of the foregoing, net income for fiscal 2007 was $312,000, a decrease of $9,700 (3.0%) from $321,700 for fiscal 2006.

Liquidity and Capital Resources. Cash and cash equivalents increased by $161,000 to $388,700 as of June 30, 2007 from $227,700 as of June 30, 2006. Net cash provided by operating activities was $172,100 for fiscal 2007 compared to $336,200 for fiscal 2006, primarily due to increases in accounts receivable and customer advance balances. For fiscal 2007, net cash provided by investing activities was $25,700 compared to net cash used in investing activities of $216,800 for fiscal 2006, primarily attributable to high redemptions of investment securities, partially offset by the cash used for the acquisition. Net cash used in financing activities for fiscal 2007 was $36,800 compared to $75,600 for fiscal 2006, the decrease due to higher cash proceeds from exercise of stock options and a lower cash dividend paid by the Company in fiscal 2007.

The Company's working capital as of June 30, 2007 decreased $28,600 to $2,460,500 from $2,489,100 at June 30, 2006, mainly 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 June 30, 2007. The Company has never borrowed under this line of credit.

Capital Expenditures. During fiscal 2007, the Company incurred $65,000 in capital expenditures, the approximate level which the Company expects to incur during the fiscal year ending June 30, 2008.

Management believes that the Company will be able to meet its cash flow needs for its operations and capital expenditures during the 12 months ending June 30, 2008 from its available financial resources which include its cash and investment securities.

Item 7. Financial Statements.

The Financial Statements required by this item are attached hereto on pages F1-F23.

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 the following six Directors:

Arthur M. Borden, Esq. (age 87), a Director since 1974, has been counsel to the law firm of Katten Muchin Rosenman LLP (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 71), a Director since November 2002 and Chairman of the Board since February 2006, has been a marketing consultant to the Company since 1996. Mr. Cremonese has been since 1991, President of Laboratory Innovation Company, Ltd., which is a vehicle for technology transfer and consulting services for companies, including the Company, engaged in the production and sale of products for science and biotechnology. Since March 2003, 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, the largest U.S. distributor of laboratory equipment.

Joseph I. Kesselman (age 82), a Director since 1961 and Chairman of the Board from August 2002 until his resignation in February 2006, 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 82), a Director since 1965, is retired. During the past five years he has been involved in liquidating various real estate and manufacturing concerns.

Grace S. Morin (age 59), a Director since December 4, 2006, had been from December 2003 President, Director and principal stockholder of Altamira Instruments, Inc. until its acquisition by the Company on November 30, 2006. Ms. Morin has been engaged by Altamira on a part-time basis to supervise the administrative functions for the Catalyst Research Instruments operations in the Pittsburgh, Pennsylvania facility. Prior to December 2003, she was a general business consultant for two years, and prior to that she was a member of senior management of a designer of gas flow environmental engineered products for approximately four years.

James S. Segasture (age 71), a Director since 1991, has been a private investor since February 1990.

The Directors are elected to three-year staggered terms. The current terms of the Directors expire at the annual meeting of stockholders of the Company to be held at the next annual meeting following: the fiscal year ended June 30, 2007 - two Directors (Mr. Kesselman and Ms. Morin, Class B), the fiscal year ending June 30, 2008 - two Directors (Messrs. Cremonese and Knowles, Class C), and the fiscal year ending June 30, 2009 - two Directors (Messrs. Borden and Segasture, Class A).

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 ("2002 Plan").

Grace S. Morin, Joseph I. Kesselman, and James S. Segasture have been appointed as the members of the Company's Compensation Committee to serve at the discretion of the Board and to administer the Company's Compensation policies.

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

The Company does not have a financial expert on the Audit

Committee as defined by the Securities and Exchange Commission, however, the Company believes that the members of the Audit Committee have sufficient knowledge to properly evaluate and analyze the Company's financial statements.

Executive Officers

Helena R. Santos, CPA (age 43), 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 46), 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, Mr. Nichols 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, 2007, its officers, directors and 10% stockholders timely complied with all filing requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended.

Code of Ethics

We have adopted a code of ethics that applies to our Executive Officers and Directors. A copy of the code of ethics can be found on our website at www.scientificindustries.com and is attached as Exhibit 14 to this Annual Report on Form 10-KSB.

Item 10. Executive Compensation.

The following table summarizes all compensation paid by the Company to its then Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and President; and Executive Vice President with respect to each of the three fiscal years ended June 30, 2007, 2006 and 2005. No other executive officer earned in excess of $100,000 in any of such fiscal periods.

The Compensation Committee along with the other members of the Board reviews and determines the compensation payable to executives. In making a determination, the Committee and the Board give material consideration to the Company's results of operations and financial conditions and competitive factors. The compensation at times includes grants of options under its stock option plan to the named executives, each subject to long-term employment agreements, containing terms which the Board of Directors deemed reasonable. The Board is cognizant that as a relatively small company, the Company has limited resources and opportunities with respect to recruiting and retaining key executives. Accordingly, the Company has relied upon long-term employment agreements to retain qualified personnel.

SUMMARY COMPENSATION TABLE

Non-

Name and Principal Position (a)	Fiscal Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)	Equity Incentive Plan Comp-ensation ($) (g)
Helena R. Santos, CEO, President, CFO	2007	115,000	10,000	0	0	0
	2006	112,100	0	0	0	0
	2005	108,200	0	0	0	0
Robert P. Nichols, Exec. V. P.	2007	110,000	10,000	0	0	0
	2006	107,000	0	0	0	0
	2005	103,200	0	0	0	0

SUMMARY COMPENSATION TABLE (CONTINUED)

Name and Principal Position (a)	Non-Qualified Deferred Comp-ensation Earnings ($) (h)	All Other Comp-ensation ($) (i)	Total ($) (j)
Helena R. Santos, CEO, President, CFO	2007	2,500(1)	127,500
	2006	2,200(1)	114,300
	2005	2,200(1)	110,400
Robert P. Nichols, Exec. V. P.	2007	2,400(1)	122,400
	2006	2,100(1)	109,100
	2005	2,100(1)	105,300

(1)Represents the Company's matching contribution under the Company's 401(K) Plans.

Pursuant to the Altamira acquisition, Altamira entered into a long-term employment agreement on November 30, 2006 employing Mr. Brookman P. March as Director of Marketing and Operations of Altamira at a salary in excess of $100,000 per annum. Under the agreement, teh total compensation paid to him during fiscal 2007 was $66,800, including a matching contribution under Altamira's 401(k) Plan.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards	
	Number of Securities	Number of Securities Under-

Name (a)	Under- lying Exercised Options(#) Exercisable (b)	lying Unexercised Options(#) Unexerci- sable (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)
Helena R. Santos	5,000	0	.84	5/2009
Robert P. Nichols	25,000	0	1.45	(1)

(1) 12,000 shares expire in March 2008; 8,000 shares expire May 2009; and 5,000 shares expire October 2012.

Option Grants in Last Fiscal Year

There were no options granted to officers during fiscal 2007.

Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values

Name	Shares of Common Stock Acquired On Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options at FY-End (#) Exercisable/ Unexercisable	Value of Unexercised in-the-money Options at FY-End ($) Exercisable/ Unexercisable(1)
Helena R. Santos	10,000	16,500	5,000/0	12,530/0

(1) Calculated by multiplying the number of shares of Common Stock subject to options by the difference between the market price and exercise price, per share, on date of exercise, and June 30, 2007, respectively.

Employment Agreements

On December 29, 2006, the Company entered into new employment agreements with Ms. Helena R. Santos and Mr. Robert P. Nichols replacing employment agreements that were entered into in September 2004. The new agreements increased their base salaries by $10,000 each - to $120,000 for Ms. Santos and $115,000 for Mr. Nichols. The new agreements also extended their employment period to December 31, 2008. They otherwise contain substantially the same provisions as the replaced agreements, including annual bonuses at the discretion of the Board and non-competition and confidentiality covenants. The Board awarded a $10,000 bonus to each of Ms. Santos and Mr. Nichols on December 4, 2006 which was paid on December 31, 2006.

In connection with the Altamira acquisition, Altamira entered into a two-year employment agreement with Mr. Brookman March, who was Altamira's Vice President and a director, employing him currently as Director of Marketing and Operations. The employment agreement provides for a two year term with Altamira having two one-year renewal options, at a salary of $110,000 per annum during the initial two year term to be increased by 2% during each renewal period plus adjustments based on annual increases in the consumer price index. Mr. March is the husband of Grace S. Morin, a Director of the Company and the former principal stockholder of Altamira, who received on the date of acquisition $361,440 in cash, 112,950 shares of the Common Stock of the Company and the right to receive 90.36% of 5% as adjusted, of the net sales of Altamira during five periods described under Item 1. "Description of Business-General". In addition, Ms. Morin received an additional $39,800 cash payment under a separate agreement related to the acquisition (See Item 12).

Directors' Compensation

DIRECTORS' COMPENSATION

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Comp-ensation ($) (e)
Arthur M. Borden	7,250	0	0	0
Joseph G. Cremonese	17,000	0	10,100	0
Joseph I. Kesselman	7,250	0	0	0
Roger B. Knowles	7,250	0	0	0
Grace S. Morin	0	0	0	0
James S. Segasture	7,250	0	0	0

DIRECTORS' COMPENSATION (CONTINUED)

Name (a)	Non-qualified Deferred Comp-ensation Earnings ($) (f)	All Other Comp-ensation ($) (g)	Total ($) (h)
Arthur M. Borden	0	0	7,250
Joseph G. Cremonese	0	(1)	27,100(1)
Joseph I.			

Kesselman	0	0	7,250
Roger B. Knowles	0	0	7,250
Grace S. Morin	0	(2)	0
James S. Segasture	0	0	7,250

(1) Mr. Cremonese received additional compensation amounting to $36,200 for fiscal 2007 under a separate agreement with the Company for marketing consulting services as described in Item 12.

(2) Ms. Morin, as an employee-director does not receive director compensation; however, since November 30, 2006, she received $41,000 in compensation as an employee of Altamira.

As of April 1, 2007, the Company increased its quarterly fee from $750 to $1,500 and the fee for each meeting attended from $500 to $1,000. In addition, the Company reimburses each Director for out-of-pocket expenses incurred in connection with attendance at board meetings in the amount of $50 or the Director's itemized expenses, whichever is greater. Mr. Joseph I. Kesselman as Chairman of the Board until February 2006 received $750 per month, and Mr. Joseph G. Cremonese, as Chairman of the Board, since February 2006 received $750 per month until April when the monthly fee was increased to $1,000. During fiscal 2007, the fees to non-employee Directors aggregated $46,000.

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 1992 Plan annually options to purchase 4,000 shares of Common Stock to each of them exercisable at the fair market value on the date of grant. Accordingly, as of June 30, 2007, 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, 2007, options under the 1992 Plan with respect to 68,000 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 per share, and, on February 20, 2007 an option to purchase 5,000 shares of Common Stock at the fair market value of $3.10 per share was granted to him.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth, as of June 30, 2007, 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. Except for Mr. Kleiman, the address for each of the following is c/o Scientific Industries, Inc., 70 Orville Drive, Bohemia, New York 11716.

Name	Amount and Nature of Beneficial Ownership	% of Class
Lowell A. Kleiman 16 Walnut Street Glen Head, NY 11545	139,581(1)	12.2%
Arthur M. Borden	60,740(2)	5.2%
Joseph G. Cremonese	31,410(3)	2.7%
Joseph I. Kesselman	64,120(4)	5.5%
Roger B. Knowles	25,595(5)	2.2%
Grace S. Morin	112,950	9.9%
James S. Segasture	187,250(6)	16.3%
Helena R. Santos	18,000(7)	1.6%
Robert P. Nichols	27,800(8)	2.4%
All directors and executive officers as a group (8 persons)	527,865(9)	42.4%

(1) Based on information reported in his Schedule 13D filed with the Securities and Exchange Commission on October 30, 2002.
(2) Includes 20,000 shares issuable upon exercise of options.
(3) 21,410 shares are owned jointly with his wife and 10,000 shares are issuable upon exercise of options.
(4) Includes 20,000 shares issuable upon exercise of options and 735 shares of Common Stock owned jointly with his wife and 4,000 shares owned by his wife.
(5) Includes 20,000 shares issuable upon exercise of options, 4,258 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 5,000 shares issuable upon exercise of options.
(8) Includes 25,000 shares issuable upon exercise of options.
(9) includes 100,000 shares issuable upon exercise of options.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ($) (b)
Equity Compensation plans approved by security holders	104,001	1.62
Equity Compensation plans not approved by security holders	N/A	N/A
Total	104,001	1.62

EQUITY COMPENSATION PLAN INFORMATION (CONTINUED)

Plan Category	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a) (c)
Equity Compensation plans approved by security holders	101,334
Equity Compensation plans not approved by security holders	N/A
Total	101,334

Item 12. Certain Relationships and Related Transactions.

Mr. Joseph G. Cremonese, who was first 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 nine years. The services have been rendered since January 1, 2003 pursuant to a consulting agreement which was amended and restated for a second time in March 2007.

The agreement as amended and restated provides that Mr. Cremonese and his affiliate render, at the request of the Company, through December 31, 2008 marketing consulting services of at least 60, but not more than 96 days per year at the rate of $600 per day with a monthly payment of $3,000, with the Company's obligation reduced to the extent the consulting services are less than 60 days for the 12 month period. The agreement contains confidentiality and non-competition covenants. During fiscal 2007, the Company paid an aggregate of $2,900 for the consulting services.

The Company and sellers of the Altamira capital stock (including Grace S. Morin who owned 90.36% of such capital stock and is a director of the Company) to the Company have agreed to the filing by the Company of an election under Section 338 of the Internal Revenue Code ("Code") to treat the acquisition as a purchase for tax purposes within the meaning of the Code. Accordingly, the Company has agreed to reimburse these sellers for any tax consequences resulting from such election. Accordingly, in September 2007, the Company paid Ms. Morin, Mr. Chandler and Ms. Haught $39,800, $1,100 and $1,100, respectively, in reimbursement. In connection with the Altamira transaction, the Company agreed to have Altamira continue to employ Ms. Morin, who was founder and President of Altamira, for up to 90 days. However, due to operational needs, she is currently employed on a part-time basis since May 1, 2007 to supervise the on-site administrative duties.

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 filed on Form 8-K during the three months ended June 30, 2007.

Item 14. Principal Accountant Fees and Services.

The Company incurred for the services of Nussbaum Yates Berg Klein & Wolpow, LLP (formerly Nussbaum, Yates & Wolpow, P.C.): audit fees (including for preparation of the Company's corporate tax returns) of approximately $39,000 and $28,500 in connection with the audit of the Company's financial statements for fiscal 2007 and fiscal 2006, respectively; $4,500 and $2,850 in connection with the quarterly reviews for fiscal 2007 and fiscal 2006, respectively, and $39,900 in fiscal 2007 for additional services rendered in connection with the acquisition of Altamira Instruments, Inc. There were no other audit related fees or other fees paid to the firm.

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, 2007

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 Arthur M. Borden	Director	September 28, 2007
/s/ Joseph G. Cremonese Joseph G. Cremonese	Chairman of the Board	September 28 2007
/s/ Joseph I. Kesselman Joseph I. Kesselman	Director	September 28, 2007
/s/ Roger B. Knowles Roger B. Knowles	Director	September 28, 2007
/s/ Grace S. Morin Grace S. Morin	Director	September 28, 2007
/s/ James S. Segasture James S. Segasture	Director	September 28, 2007

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 as Exhibit 10(a) to the Company's Form 10-KSB filed on September 28, 2005 and incorporated by reference thereto).
10(a)-1	Amendment to lease between Registrant and REP A10 LLC 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(b)-2	Employment Agreement dated December 29, 2006, by and between the Company and Ms. Santos (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on December 29, 2006, and incorporated by reference thereto).
10(c)	Employment Agreement dated January 1, 2003, by and between the Company and Mr. Nichols (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on January 22, 2003, and incorporated by reference thereto).

10(c)-1	Employment Agreement dated September 1, 2004, by and between the Company and Mr. Nichols (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on September 1, 2004, and incorporated by reference thereto).
10(c)-2	Employment Agreement dated December 29, 2006, by and between the Company and Mr. Nichols (Filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on December 29, 2006, and incorporated by reference thereto).
10(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).
10(d)-2	Consulting Agreement dated March 15, 2007, by and between the Company and Mr. Cremonese and Laboratory Innovation Company Ltd., (Filed as Exhibit 10A-1 to the Company's Current report on Form 8-K filed on March 16, 2007, and incorporated by reference thereto).
10(e)	Sublicense from Fluorometrix Corporation (Filed as Exhibit 10(a)1 to the Company's Current Report on Form 8-K filed on June 14, 2006, and incorporated by reference thereto).
10(f)	Stock Purchase Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).
10(g)	Escrow Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (filed as Exhibit 10(a) to the Company's current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).
10(h)	Registration Rights Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (filed as Exhibit 10(b) to the Company's current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).
10(i)	Employment Agreement, dated as of November 30, 2006, between Altamira Instruments, Inc. And Brookman P. March (Filed as Exhibit 10(c) to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).
10(j)	Indemnity Agreement, dated as of April 13, 2007 by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler.
10(k)	Lease between Altamira Instruments, Inc. And Allegheny

	Homes, LLC, with respect to the Company's Pittsburgh, Pennsylvania facilities.
14	Code of Ethics
21	Subsidiaries of the Registrant
	Scientific Packaging Industries, Inc., a New York corporation, is a wholly-owned inactive subsidiary of the Company.
	Altamira Instruments, Inc., a Delaware Corporation, is a wholly-owned subsidiary of the Company since November 30, 2006.
31.1	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 SUBSIDIARIES

YEARS ENDED JUNE 30, 2007 AND 2006

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

YEARS ENDED JUNE 30, 2007 AND 2006

CONTENTS

Report of Independent Registered Public Accounting Firm

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

We have audited the consolidated balance sheets of Scientific Industries, Inc. and subsidiaries as of June 30, 2007 and 2006, 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 consolidated financial position of Scientific Industries, Inc. and subsidiaries as of June 30, 2007 and 2006, and the consolidated 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 Berg Klein & Wolpow

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

September 27, 2007

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2007 AND 2006

ASSETS

	2007	2006
Current assets:		
Cash and cash equivalents	$ 388,700	$ 227,700
Investment securities	718,000	1,168,200
Trade accounts receivable, less allowance for doubtful accounts of $11,600 in 2007 and 2006	750,800	313,900
Inventories	1,289,600	930,300
Prepaid and other current assets	61,200	103,900
Deferred taxes	25,600	25,500
Total current assets	3,233,900	2,769,500
Property and equipment, net	247,300	122,100
Intangible assets, net	596,800	40,200
Goodwill	13,400	-
Other	45,700	38,700
Total assets	$4,137,100	$2,970,500

LIABILITIES AND SHAREHOLDERS' EQUITY

	2007	2006
Current liabilities:		
Accounts payable	$ 231,900	$ 68,100
Customer advances	147,600	-
Accrued expenses and taxes	393,900	212,300
Total current liabilities	773,400	280,400
Deferred taxes	7,600	3,200
Commitments and contingencies		
Shareholder's equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; issued 1,165,154 and 1,020,154 shares in 2007 and 2006	58,200	51,000
Additional paid-in capital	1,428,900	1,010,500
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(9,900)	(11,500)
Retained earnings	1,931,300	1,689,300
	3,408,500	2,739,300
Less common stock held in treasury at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	3,356,100	2,686,900
Total liabilities and shareholders' equity	$4,137,100	$2,970,500

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Net sales	$4,880,000	$3,465,200
Cost of sales	2,924,300	1,766,700
Gross profit	1,955,700	1,698,500
Operating expenses:		
General and administrative	880,100	718,900
Selling	393,500	238,200
Research and development	302,100	316,500
	1,575,700	1,273,600
Income from operations	380,000	424,900
Other income:		
Interest income	43,900	34,600
Other income, net	11,200	9,500
	55,100	44,100
Income before income taxes	435,100	469,000
Income tax expense:		
Current	118,800	123,600
Deferred	4,300	23,700
	123,100	147,300
Net income	$ 312,000	$ 321,700
Basic earnings per common share	$ .29	$ .32
Diluted earnings per common share	$ .27	$ .30
Weighted average common shares outstanding	1,075,878	991,809
Weighted average common shares outstanding, assuming dilution	1,140,751	1,068,445

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED JUNE 30, 2007 AND 2006

	Common Stock		Additional Paid-in	Accumulated Other Compr-
	Shares	Amount	Capital	ehensive Loss
Balance, July 1, 2005	1,000,009	$50,000	$ 991,200	$ (7,600)
Net income	-	-	-	-
Other comprehensive loss:				
Unrealized holding loss arising during period	-	-	-	(6,400)
Less reclassification adjustment for loss included in net income	-	-	-	2,500
Change in net unrealized holding loss	-	-	-	-
Comprehensive income	-	-	-	-
Exercise of stock options and warrant	20,145	1,000	12,500	-
Income tax benefit of stock options exercised	-	-	6,800	-
Cash dividend paid, $.09 per share	-	-	-	-
Balance, June 30, 2006	1,020,154	51,000	1,010,500	(11,500)
Net income	-	-	-	-
Other comprehensive loss:				
Unrealized holding gain arising during period	-	-	-	1,800
Plus reclassification adjustment for gain included in net income	-	-	-	(200)
Change in net unrealized holding loss	-	-	-	-
Comprehensive income	-	-	-	-
Exercise of stock options	20,000	1,000	32,200	-
Issuance of common stock in connection with acquisition	125,000	6,200	380,000	-
Stock-based compensation	-	-	5,100	-
Income tax benefit of				

stock options exercised	-	-	1,100	-
Cash dividend paid, $.07 per share	-	-	-	-
Balance, June 30, 2007	1,165,154	$58,200	$1,428,900	$ (9,900)

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

	Retained	Treasury Stock		Shareholders'
	Earnings	Shares	Amount	Equity
Balance, July 1, 2005	$1,456,700	19,802	$52,400	$ 2,437,900
Net income	321,700	-	-	321,700
Other comprehensive loss:				
Unrealized holding loss arising during period	-	-	-	(6,400)
Less reclassification adjustment for loss included in net income	-	-	-	2,500
Change in net unrealized holding gain	-	-	-	(3,900)
Comprehensive income	-	-	-	317,800
Exercise of stock options and warrant	-	-	-	13,500
Income tax benefit of stock options exercised	-	-	-	6,800
Cash dividend paid, $.09 per share	(89,100)	-	-	(89,100)
Balance, June 30, 2006	1,689,300	19,802	52,400	2,686,900
Net income	312,000	-	-	312,000
Other comprehensive loss:				
Unrealized holding gain arising during period	-	-	-	1,800
Plus reclassification adjustment for gain included in net income	-	-	-	(200)
Change in net unrealized holding loss	-	-	-	1,600
Comprehensive income	-	-	-	313,600

Exercise of stock options	-	-	-	33,200
Issuance of common stock in connection with acquisition	-	-	-	386,200
Stock-based compensation	-	-	-	5,100
Income tax benefit of stock options exercised	-	-	-	1,100
Cash dividend paid, $.07 per share	(70,000)	-	-	(70,000)
Balance, June 30, 2007	$1,931,300	19,802	$52,400	$3,356,100

See notes to consolidated financial statements.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Operating activities:		
Net income	$ 312,000	$ 321,700
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sale of investments	(200)	2,500
Depreciation and amortization	150,100	78,100
Deferred income taxes	4,300	23,700
Income tax benefit of stock options exercised	1,100	6,800
Stock-based compensation	5,100	-
Changes in assets and liabilities, net of effect of acquisition:		
Trade accounts receivable	(319,600)	136,700
Inventories	24,900	(129,900)
Prepaid and other current assets	50,300	(46,100)
Other assets	18,100	1,300
Accounts payable	(75,100)	(14,300)
Customer advances	(104,200)	-
Accrued expenses and taxes	126,700	(24,900)
Deferred compensation	(21,400)	(19,400)
Total adjustments	(139,900)	14,500

Net cash provided by operating activities	172,100	336,200
Investing activities, net of effect of acquisition:		
Acquisition of Altamira Instruments, Inc., net of cash acquired	(346,500)	-
Purchase of investment securities, available for sale	(23,700)	(344,500)
Redemption of investment securities, available for sale	475,700	123,600
Redemption of investment securities, held to maturity	-	72,300
Capital expenditures	(65,000)	(38,000)
Purchase of intangible assets	(14,800)	(30,200)
Net cash provided by (used in) investing activities	25,700	(216,800)
Financing activities:		
Proceeds from exercise of stock options	33,200	13,500
Cash dividend paid	(70,000)	(89,100)
Net cash used in financing activities	(36,800)	(75,600)
Net increase in cash and cash equivalents	161,000	43,800
Cash and cash equivalents, beginning of year	227,700	183,900
Cash and cash equivalents, end of year	$ 388,700	$ 227,700
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 126,400	$ 75,100

Non-cash financing activity:
See Note 2 for stock issued in connection with 2007 acquisition and Note 12 for exercise of warrants in 2006

See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of Significant Accounting Policies

Nature of Operations

Scientific Industries, Inc. and its subsidiaries (the "Company") design, manufacture, and market a variety of benchtop laboratory equipment and catalyst research instruments. The Company is headquartered in Bohemia, New York where it produces benchtop laboratory equipment for research and, since November 30, 2006, has a location in Pittsburgh, Pennsylvania, where it produces a variety of custom-made catalyst research instruments. The equipment sold by the Company includes mixers, shakers, stirrers, refrigerated incubators, catalyst characterization instruments, reactor systems and high throughput systems.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Scientific Industries, Inc., Scientific Packaging Industries, Inc., an inactive wholly-owned subsidiary and, since November 30, 2006 (date of acquisition), Altamira Instruments, Inc. ("Altamira") a Delaware corporation and wholly-owned subsidiary (all collectively referred to as the "Company"). All material intercompany balances and transactions have been eliminated.

Revenue Recognition

Revenue is recognized when all the following criteria are met:

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

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

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of 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.

1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

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

Customer Advances

In the ordinary course of business, customers of Altamira may prepay monies for purchase orders issued to the Company. Such amounts are categorized as liabilities under the caption customer advances.

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.

1. Summary of Significant Accounting Policies (Continued)

Intangible Assets

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

Goodwill

Goodwill represents the excess purchase price over the fair value of acquired net assets and in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," is tested for impairment annually, or earlier, if indicators of impairment exist. To the extent an indication exists that the goodwill may be impaired, the Company must measure the impairment loss, if any. The Company performed an assessment to determine whether goodwill was impaired at June 30, 2007 and determined that there was no impairment to its goodwill balance.

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.

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, deferred compensation paid, and the use of accelerated methods of depreciation and amortization for tax purposes.

1. Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are expensed as incurred. Advertising expense amounted to $36,200 and $39,100 for the years ended June 30, 2007 and 2006.

Stock Compensation Plan

During the year ended June 30, 2003, the Company established a ten-year stock option plan (the "2002 Plan") which provides for the grant of options to purchase up to 100,000 shares of the Company's Common Stock, par value $.05 per share ("Common Stock"), plus to the extent that options previously granted under the 1992 Stock Option Plan of the Company (the "Prior Plan") expire or terminate for any reason without having been exercised, then options exercisable for that same number of shares of Common Stock, up to a maximum of one hundred sixty one thousand (161,000) shares, may be granted pursuant to the 2002 Plan. The 2002 Plan provides for the granting of incentive or non-incentive stock options as defined in the 2002 Plan. 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 such directors of the Company since December 2001. The options expire at various dates through February 2017. At June 30, 2007, 101,334 shares of Common Stock were available for grant under the 2002 Plan and the Prior Plan.

Through the year ended June 30, 2006, the Company had elected to account for its employee stock options under APB Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation expense was recognized for options granted under fixed plans when the option price was 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, was required under SFAS No. 123, "Accounting for Stock-Based Compensation," 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. There were no options granted in 2006.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of Significant Accounting Policies (Continued)

Stock Compensation Plan (Continued)

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 for the year ended June 30, 2006 would have been reduced to the pro forma amounts indicated below:

Net income:	
As reported	$ 321,700
Pro forma	320,600
Basic earnings per share:	
As reported	$ .32
Pro forma	$ .32
Diluted earnings per share:	
As reported	$ .30
Pro forma	$ .30
Stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported	$ -

Any stock-based compensation transaction subsequent to June 30, 2006 is accounted for using SFAS No. 123R, "Share-Based Payment". 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 the Company's fiscal year ended 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 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25.
During the year ended June 30, 2007, the Company granted 5,000 options that had a fair value of $10,100 to a director who is affiliated with a consultant to the Company. The fair value of the options was determined using the Black-Scholes-Merton option-pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The weighted-average assumptions used were an expected life of 10 years; risk-free interest rate of 4.69%; volatility of 69%; and a dividend yield of 6%. The weighted-average value of the options granted in 2007 was $2.02 and stock-based compensation costs were $5,100 for the year ended June 30, 2007. Stock-based compensation costs related to non-vested awards are $5,000 to be recognized over the next two years.

The Company did not grant any options or warrants as compensation for goods or services to non-employees for the years ended June 30, 2007 and 2006.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of Significant Accounting Policies (Continued)

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 estimate that requires management's most difficult and subjective judgment includes the valuation of inventory. 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, if any.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 will be applied prospectively and will be effective for periods beginning after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS 157 on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement ("SFAS") No. 109." This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation describes a recognition threshold and measurement attribute for the financial statement disclosure of tax positions taken or expected to be taken. It also provides for guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is still evaluating the effect of adopting FIN 48 and does not expect it to have a material effect on the Company's consolidated financial statements.

2. Acquisition

On November 30, 2006, the Company acquired all of the outstanding capital stock of Altamira. 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 sellers $400,000 in cash and 125,000 shares of the Company's 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 - December 1, 2006 to June 30, 2007, each of the fiscal years ending June 30, 2008, 2009, and 2010, and July 1, 2010 to November 30, 2010.

2. Acquisition (Continued)

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 trademarks. The carrying amounts of goodwill and other intangible assets are presented in Note 7, "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. Under a separate agreement with the sellers, the Company made an election to treat the acquisition of Altamira stock as a purchase of assets for tax purposes, which resulted in approximately an additional $42,000 to be paid to the sellers for their additional tax burden as a result of this election which has been treated as part of the cost of the acquisition (see Note 7).

The acquisition was recorded under the purchase method of accounting. The net purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair market values at the date of the acquisition. The allocation of the net purchase price as adjusted for the items described above is as follows:

Current assets	$ 734,000
Property and equipment	140,300
Non-current assets	25,100
Goodwill	13,400
Other intangible assets	639,000*
Current liabilities	(561,900)
Net purchase price	$ 989,900

*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 trademarks with a useful life of 5 years, and $102,000 was allocated to a non-compete agreement with a useful life of 5 years. The amount allocated to the customer relationships is being amortized on an accelerated (declining balance) method and the other intangibles are being amortized on a straight-line basis.

2. Acquisition (Continued)

Pro Forma Results

The unaudited pro forma condensed financial information in the table below summarizes the results of operations of Scientific Industries, Inc. ("Scientific") and Altamira, on a pro forma basis, as though the companies had been consolidated as of the beginning of each of the fiscal years 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 fiscal year:

	2007	2006
Net sales	$ 5,905,300	$ 4,944,400
Net income	388,400	218,100
Net income per share - basic	$ .34	$ .20
Net income per share - diluted	.33	.18

3. Segment Information 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 ("benchtop laboratory equipment operations"), and the manufacture and marketing of custom-made catalyst research instruments for universities, government laboratories, and chemical and petrochemical companies sold on a direct basis ("catalyst research instruments operations"). Substantially all of the management and employees of Altamira were retained following the acquisition.

Segment information is reported as follows:

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
June 30, 2007:				
Net Sales	$3,558,100	$1,321,900	$ -	$4,880,000
Foreign Sales	1,659,500	582,700	-	2,242,200
Segment Profit (Loss)	495,600	(60,500)	-	435,100
Segment Assets	2,050,100	1,329,900	757,100	4,137,100
Long-Lived Assets Expenditures	72,000	7,800	-	79,800
Depreciation and Amortization	51,300	98,800	-	150,100

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

3. Segment Information and Concentrations (Continued)

There was only one reportable segment, the benchtop laboratory equipment operations, for the year ended June 30, 2006.

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

	2007	2006
Export sales (principally Europe and Asia)	$ 2,242,200	$ 1,514,400
Customers in excess of 10% of net sales:		
Largest in 2007, second largest in 2006	766,700	586,700
Largest in 2006	-	703,000
Second largest in 2007, third largest in 2006	355,600	353,500

Accounts receivable from these customers amounted to approximately 13% and 42% of total accounts receivable at June 30, 2007 and 2006.

During the fourth quarter of fiscal 2006, the Company's then principal customer and distributor advised the Company that it would no longer market and buy the Company's products. Sales to this customer accounted for approximately 20% of net sales for fiscal 2006 and none for 2007.

The Company purchased approximately 17% and 44% of inventory from one supplier for the years ended June 30, 2007 and 2006.

4. Investment Securities

Details as to investment securities are as follows:

	Gross Cost or Amortized Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2007:			
Available for sale:			
Equity securities	$ 7,800	$ 12,500	$ 4,700
Mutual funds	645,100	630,500	(14,600)
Callable bonds	75,000	75,000	-
	$ 727,900	$ 718,000	$ (9,900)

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

4. Investment Securities (Continued)

	Gross Cost or Amortized Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2006:			
Available for sale:			
Equity securities	$ 8,300	$ 11,300	$ 3,000
Mutual funds	621,400	606,900	(14,500)
Callable bonds	550,000	550,000	-
	$1,179,700	$1,168,200	$ (11,500)

5. Inventories

	2007	2006
Raw materials	$ 904,200	$ 806,700
Work-in-process	302,400	5,200
Finished goods	83,000	118,400
	$1,289,600	$ 930,300

6. Property and Equipment

	Useful Lives (Years)	2007	2006
Computer equipment	3-5	$ 130,200	$ 126,000
Machinery and equipment	3-7	439,300	365,400
Furniture and fixtures	4-10	172,300	88,000
Leasehold improvements	3-5	51,000	37,700
		792,800	617,100
Less accumulated depreciation and amortization		545,500	495,000
		$ 247,300	$ 122,100

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

7. 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, trademarks and licenses. The valuation resulted in an initial negative goodwill of approximately $91,500 on the date of acquisition which was subsequently adjusted to goodwill of $13,400 at June 30, 2007. The Stock Purchase Agreement provides for contingent future payments to the former shareholders based on net sales of the catalyst research instrument operations subject to certain limits, which are expected to be earned and paid. Additional consideration earned based upon sales through June 30, 2007 amounted to approximately $66,000.

The components of intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2007:				
Technology	5 yrs.	$300,000	$ 35,000	$ 265,000
Customer relationships	10 yrs.	237,000	37,200	199,800
Non-compete agreement	5 yrs.	102,000	11,900	90,100
Other intangible assets	5 yrs.	110,300	68,400	41,900
		$749,300	$ 152,500	$ 596,800

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2006:				
Other intangible assets	5 yrs.	$114,400	$ 74,200	$ 40,200

Total amortization expense was $97,200 and $8,700 in 2007 and 2006.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

7. Goodwill and Other Intangible Assets (Continued)

Estimated future intangible assets amortization expense, based on current balances, as of June 30, 2007 is as follows:

Fiscal Years	
2008	$ 138,900
2009	130,300
2010	118,600
2011	106,800
2012	49,900
Thereafter	52,300
	$ 596,800

8. 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, 2007 and 2006. To support the line of credit, the Company would be required to maintain 20% of the credit line in average monthly balances.

9. Employee Benefit Plan

The Company has a 401(k) profit sharing plan covering the Benchtop Laboratory Operations employees and as a result of the acquisition of Altamira, a second 401(k) profit sharing plan covering the Altamira employees. Both plans provide for voluntary employee salary contributions not to exceed the statutory limitations provided by the Internal Revenue Code. The first plan provides for company matching of 50% of each participant's salary deferral election, up to a maximum amount for each participant of 2% of their compensation, while the Altamira plan provides for matching the employee contributions up to 4% of their compensation. Total employer matching contributions amounted to $17,700 and $9,500 for the years ended June 30, 2007 and 2006, respectively.

10. Commitments and Contingencies

Leases

The Company is obligated through January 2010 under a noncancelable operating lease for its Bohemia, New York premises, which requires minimum annual rental payments plus other expenses, including real estate taxes and insurance. In accordance with generally accepted accounting principles, the future minimum annual rental expense, computed on a straight-line basis, is approximately $182,800 under the terms of the lease. Rental expense for the Bohemia facility amounted to approximately $203,400 in 2007 and $199,500 in 2006. Accrued rent, payable in future years, amounted to $29,400 and $28,000 at June 30, 2007 and 2006.

The Company is also obligated under a lease for its facility in Pittsburgh, Pennsylvania. The lease, which commenced on August 1, 2006, has a term of five years through July 31, 2011, with an addendum provision for early termination with 180 day notice after two years of occupancy without penalty. The lease requires monthly minimum rental payments of $4,500 for the first two years and $4,700 monthly thereafter, with an option to renew for an additional five years. Total rental expense for the Pittsburgh facility was $31,500 in 2007. There are no other significant expenses related to this lease.

The Company's approximate future minimum rental payments under all leases, assuming exercise of early termination of the Pittsburgh lease, are as follows:

Fiscal Years	Bohemia Facility	Pittsburgh Facility	Total
2008	$186,100	$ 54,000	$240,100
2009	193,600	32,900	226,500
2010	115,800	-	115,800
	$495,500	$ 86,900	$582,400

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

10. 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 were for his benefit. As of June 30, 2006, $21,400 was segregated into such an account and was included as an asset. The balance due to him was 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, 2007 and 2006, $22,000 and $21,000, respectively were paid to the former President. There are no additional payments due.

The Company has employment contracts with its President and Executive Vice President expiring on December 31, 2008, providing for annual base salaries of $120,000 and $115,000, respectively. Each contract provides for a performance bonus at the discretion of the Board of Directors. A cash bonus of $10,000 was paid to each of the two executive officers on December 31, 2006.

In connection with the acquisition of Altamira, the Company entered into an employment agreement with its former Vice President and Director for his services as Director of Marketing and Operations. The agreement provides for a two-year term with the Company having two one-year renewal options, at a salary of $110,000 per annum during the initial two-year term to be increased by 2% during each of the two-year extension periods plus adjustments based on annual increase in the consumer price index. The employment agreement contains non-competition and non-solicitation covenants.

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, 2007.

The Company has a consulting agreement expiring December 31, 2008 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. Consulting expense related to this agreement amounted to $32,900 and $35,400 for the years ended June 30, 2007 and 2006.

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

11. Income Taxes

Income taxes for 2007 and 2006 were different from the amounts computed by applying the Federal income tax rate to the income before income taxes due to the following:

	2007		2006	
	Amount	%of Pre-tax Income	Amount	% of Pre-tax Income
Computed "expected" income tax	$147,900	34.0%	$159,500	34.0%
Research and development credits	(11,700)	(2.7)	(6,000)	(1.3)
State income taxes, net of Federal effect	10,700	2.5	11,600	2.5
Other, net	(23,800)	(5.5)	(17,800)	(3.8)
Actual income taxes	$123,100	28.3%	$147,300	31.4%

Deferred tax assets and liabilities consist of the following:

	2007	2006

Deferred tax assets:		
Amortization of intangibles	$ 33,800	$ 11,300
Deferred compensation	-	7,100
Rent accrual	10,000	9,600
Other	25,600	21,900
	69,400	49,900
Deferred tax liability:		
Depreciation of property and equipment	(51,400)	(27,600)
Net deferred tax assets	$ 18,000	$ 22,300

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

	2007	2006
Current deferred tax assets	$ 25,600	$ 25,500
Long-term deferred tax assets	43,800	24,400
Long-term deferred tax liabilities	(51,400)	(27,600)
	$ 18,000	$ 22,300

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

12. Stock Options and Warrant

Option activity is summarized as follows:

	Fiscal 2007		Fiscal 2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Shares under option:				
Outstanding, beginning of year	119,001	$ 1.57	131,334	$ 1.54
Granted	5,000	3.10	-	-
Exercised	(20,000)	1.66	(10,666)	1.27
Forfeited	-	-	(1,667)	1.20
Outstanding, end of year	104,001	1.62	119,001	1.57

Options exercisable at year-end	101,001	$ 1.58	119,001	$ 1.57
Weighted average fair value per share of options granted during fiscal 2007 and 2006		$ 3.10		$ -

	As of June 30, 2007 Options Outstanding			As of June 30, 2007 Exercisable	
Range Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Exercise Price
$1.92-$3.10	63,000	3.32	$ 2.04	60,000	$ 1.99
$.82-$1.33	41,001	3.25	.98	41,001	.98
	104,001			101,001	

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

12. Stock Options and Warrant (Continued)

	As of June 30, 2006 Options Outstanding and Exercisable		
Range Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$1.25-$2.40	90,000	3.45	$1.80
$.82-$.84	29,001	3.14	.84
	119,001		

During the year ended June 30, 2006 a stock purchase warrant for

17,390 shares of the Company's common stock issued during 2001 for services was exercised at a price of $1.4375 per share. The exercise was cashless and resulted in the Company issuing 9,479 shares.

13. Earnings Per Common Share

Earnings per common share data was computed as follows:

	2007	2006
Net income	$ 312,000	$ 321,700
Weighted average common shares outstanding	1,075,878	991,809
Effect of dilutive securities, stock options (and warrant in 2006)	64,873	76,636
Weighted average dilutive common shares outstanding	1,140,751	1,068,445
Basic earnings per common share	$ .29	$ .32
Diluted earnings per common share	$ .27	$ .30

14. Fair Value of Financial Instruments

The financial statements include various estimated fair value information as of June 30, 2007 and 2006, as required by SFAS No. 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:

	2007	2006

	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 388,700	$388,700	$ 227,700	$ 227,700
Investment securities (Note 3)	$ 718,000	$718,000	$1,168,200	$1,168,200