SCIENTIFIC INDUSTRIES INC
Form 10QSB
May 15, 2008

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

FORM 10-QSB

(Mark One)
X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended March 31, 2008

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

For the transition period from to

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.

(Exact name of small business as specified in its charter)

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

70 Orville Drive, Bohemia, New York 11716
(Address of principal executive offices)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 5, 2008: 1,181,352 shares outstanding of the Company's Common Stock, par value, $ .05.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [x]

PART I--FINANCIAL INFORMATION
Item 1. Financial Statements

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

ASSETS

	March 31, 2008
Current Assets:	
Cash and cash equivalents	$1,114,300
Investment securities	708,200
Trade accounts receivable, less allowance for doubtful accounts of $11,600	754,700
Inventories	1,788,600
Prepaid expenses and other current assets	158,900
Deferred taxes	30,300
Total current assets	4,555,000
Property and equipment at cost, less accumulated depreciation of $589,000	257,700
Intangible assets, less accumulated amortization of $265,200	489,200
Goodwill	101,300
Deferred taxes	11,200
Other	46,000
Total assets	$5,460,400

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	$ 177,800
Customer advances	1,270,800
Accrued expenses and taxes	392,900
Total current liabilities	1,841,500
Shareholders' equity:	
Common stock, $.05 par value; authorized 7,000,000 shares; 1,201,154 issued and outstanding	60,100
Additional paid-in capital	1,506,200
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(38,300)
Retained earnings	2,143,300
	3,671,300
Less common stock held in treasury, at cost, 19,802 shares	52,400
	3,618,900
	$5,460,400

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2008	2007	2008	2007
Net sales	$1,381,800	$1,341,000	$4,727,700	$3,407,200
Cost of goods sold	885,900	826,600	2,955,900	2,017,400
Gross profit	495,900	514,400	1,771,800	1,389,800
Operating Expenses:				
General & administrative	234,900	279,500	748,200	651,700
Selling	105,100	114,100	352,800	262,900
Research & development	105,200	66,000	284,800	234,400
	445,200	459,600	1,385,800	1,149,000
Income from operations	50,700	54,800	386,000	240,800
Interest & other income, net	18,900	10,000	48,800	41,800
Income before income taxes	69,600	64,800	434,800	282,600
Income tax expense (benefit):				
Current	23,900	25,400	166,100	95,000
Deferred	(3,600)	(2,400)	(23,500)	(900)
	20,300	23,000	142,600	94,100
Net income	$ 49,300	$ 41,800	$ 292,200	$ 188,500
Basic earnings per common share	$ .04	$ .04	$ .25	$ .18
Diluted earnings per common share	$ .04	$ .03	$ .24	$ .17
Cash dividends declared per common share	$ -	$ -	$ .07	$ .07

See notes to unaudited condensed consolidated financial statements

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

	For the Nine Month Periods Ended March 31, 2008	March 31, 2007
Operating activities:		
Net income	$ 292,200	$ 188,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of investments	-	(200)
Depreciation and amortization	163,100	146,600
Deferred income taxes	(23,500)	(900)
Stock-based compensation	2,300	-
Income tax benefit of stock options exercised	14,000	-
Changes in assets and liabilities:		
Accounts receivable	(3,900)	(227,000)
Inventories	(499,000)	242,700
Prepaid expenses and other current assets	(97,700)	46,100
Other assets	(300)	18,100
Accounts payable	(54,100)	(148,100)
Customer advances	1,123,200	(131,800)
Accrued expenses and taxes	13,900	91,300
Total adjustments	638,000	36,800
Net cash provided by operating activities	930,200	225,300
Investing activities:		
Acquisition of Altamira Instruments, Inc., net of cash acquired	-	(346,500)
Additional consideration for Altamira Instruments, Inc. acquisition	(102,800)	-
Purchase of investment securities, available-for-sale	(18,500)	(17,500)
Redemptions of investment securities, available-for-sale	-	425,700
Capital expenditures	(60,900)	(35,500)
Purchase of intangible assets	(5,100)	(12,800)
Net cash provided by (used in) investing activities	(187,300)	13,400

Financing activities:		
Proceeds from exercise of stock options	62,900	8,000
Cash dividends declared and paid	(80,200)	(70,000)
Net cash used in financing activities	(17,300)	(62,000)
Net increase in cash and cash equivalents	725,600	176,700
Cash and cash equivalents, beginning of year	388,700	227,700
Cash and cash equivalents, end of period	$1,114,300	$ 404,400
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	$ 111,300	$ 99,900

See notes to unaudited condensed consolidated financial statements

3

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

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-QSB. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-KSB, for the fiscal year ended June 30, 2007. The results for the three and nine months ended March 31, 2008, are not necessarily an indication of the results of the full fiscal year ending June 30, 2008.

1. Significant accounting policies:

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.

2. Recent Accounting Pronouncements:

In September 2006 the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 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 No. 157 will be applied prospectively and is effective for periods beginning after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS No. 157 on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS No. 159 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. On July 1, 2007 the Company adopted FIN 48 and the adoption did not result in any adjustments to the Company's consolidated financial statements.

3. Acquisition of Altamira Instruments, Inc.:

On November 30, 2006, the Company acquired all of the outstanding capital stock of Altamira pursuant to a Stock Purchase Agreement dated the same date. The agreement provided for acquisition consideration of $400,000 in cash and 125,000 shares of the Company's Common Stock and contingent consideration consisting of cash payments (which were not determinable on date of acquisition) equal to 5%, subject to possible adjustment, of the net sales (no limit) 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. Under this contingency, the additional consideration amounted to $154,000 as of March 31, 2008.

Under a separate agreement with the sellers, they agreed to permit the Company to treat the acquisition of Altamira stock as a purchase of assets for tax purposes in consideration of which the Company agreed to reimburse them for their resulting additional tax burden. The reimbursement, which was paid in September 2007 and treated as additional cash consideration (see Note 9), amounted to approximately $42,000.

Altamira's principal customers are universities, government laboratories, and chemical and petrochemical companies. Its products - catalyst research 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 valued the tangible and intangible assets acquired, including goodwill, customer relationships, non-compete agreements, and certain technology, trade names and trademarks. The carrying amounts of goodwill and other intangible assets are presented in Note 9, "Goodwill and Other Intangible Assets". In addition, other fair market value adjustments were made in conjunction with the acquisition, primarily adjustments to property and equipment, and inventory. 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 total 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	101,300
Other Intangible Assets	639,000*
Current Liabilities	(561,900)
Net purchase price	$ 1,077,800

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

Pro forma results

The unaudited pro forma condensed financial information in the table below summarizes the results of operations of Scientific Industries, Inc. ("Scientific") and Altamira, on a pro forma basis, as though the companies had been combined as of July 1, 2006. The unaudited pro forma condensed financial information presented below for the nine month period ended March 31, 2007 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 that date:

	For the Nine Month Period Ended March 31, 2007
Net Sales	$4,432,600
Net income	$ 289,000
Net income per share - basic	$ .26
Net income per share - diluted	$ .24

4. Segment Information and Concentrations:

As a result of the acquisition of Altamira, the Company views its operations as two segments: the manufacture and marketing of standard benchtop laboratory equipment for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors ("benchtop laboratory equipment operations"), and the manufacture and marketing of custom-made catalyst research instruments for universities, government laboratories, and chemical and petrochemical companies sold on a direct basis ("catalyst research instruments operations"). Substantially all of the management and employees of Altamira were retained following the acquisition.

Segment information as of March 31, 2008 and for the three and nine months ended March 31, 2008 and 2007 (the 2007 nine month period includes the catalyst research instruments operation for the period December 1, 2006 through March 31, 2007, and the 2007 three month period includes its operations for the full three months) is as follows:

6

Three Months Ended March 31, 2008

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Total Net Sales	$ 945,800	$ 436,000	$ -	$1,381,800
Foreign Sales	489,100	60,800	-	549,900
Profit (Loss)	95,000	(25,400)	-	69,600
Assets as of March 31, 2008	2,925,800	1,683,600	851,000	5,460,400
Long-Lived Assets Expenditures	27,600	-	-	27,600
Depreciation and Amortization	13,600	37,900	-	51,500

Three Months Ended March 31, 2007

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Total Net Sales	$ 929,100	$ 411,900	$ -	$1,341,000
Foreign Sales	466,200	150,000	-	616,200
Profit (Loss)	140,100	(75,300)	-	64,800
Long-Lived Assets Expenditures	35,500	-	-	35,500
Depreciation and Amortization	12,400	42,900	-	55,300

Approximately 68% and 69% of net sales of benchtop laboratory equipment were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories for the three month periods ended March 31, 2008 and 2007, respectively. Sales of benchtop laboratory equipment to two customers, combined, accounted in the aggregate for approximately 34% of the segment's sales (23% of total sales) and 36% of the segment's sales (25% of total sales) for the three month periods ended March 31, 2008 and 2007, respectively.

Sales of catalyst research instruments are generally comprised of a few very large orders amounting, on average, to more than $100,000 to a limited number of customers, who differ from order to order. Sales to three customers, combined, accounted for 84% of the catalyst research instrument sales (25% of total sales) for the three months ended March 31, 2008. Three other customers, combined, accounted for 96% of the segment's sales (30% of total sales) for the three months ended March 31, 2007.

Nine Months Ended March 31, 2008

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Total Net Sales	$2,882,100	$1,845,600	$ -	$4,727,700
Foreign Sales	1,475,900	200,800	-	1,676,700
Profit (Loss)	309,000	125,800	-	434,800
Assets as of March 31, 2008	2,925,800	1,683,600	851,000	5,460,400
Long-Lived Assets Expenditures	53,600	7,300	-	60,900
Depreciation and Amortization	42,200	120,900	-	163,100

Nine Months Ended March 31, 2007

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Total Net Sales	$2,619,000	$ 788,200	$ -	$3,407,200
Foreign Sales	1,265,900	290,100	-	1,556,000
Profit (Loss)	397,600	(115,000)	-	282,600
Long-Lived Assets Expenditures	35,500	-	-	35,500
Depreciation and Amortization	37,200	109,400	-	146,600

Approximately 69% and 70% of net sales of benchtop laboratory equipment were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories, for the nine month periods ended March 31, 2008 and 2007, respectively. Two benchtop laboratory equipment customers accounted in the aggregate for approximately 32% and 33% of the segment's sales for the nine month periods ended March 31, 2008 and 2007, respectively (19% and 25% of consolidated sales for the 2008 and 2007 periods, respectively).

Sales of catalyst research instruments are generally comprised of a few very large orders amounting, on average, to more than $100,000 to a limited number of customers, who differ from order to order. Sales of catalyst research instruments to two customers, combined, accounted for 45% of that segment's sales (18% of consolidated sales) for the nine months ended March 31, 2008. Four other customers accounted for 88% of the segment's sales (20% of consolidated sales) for the nine month period ended March 31, 2007, which only included sales of catalyst research instruments for the period December 1, 2006 through March 31, 2007.

5. Inventories:

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

	March 31, 2008
Raw Materials	$ 950,100
Work in process	701,500
Finished Goods	137,000
	$ 1,788,600

6. Earnings per common share:

Basic earnings per common share are computed by dividing net income by the weighted-average number of shares outstanding. Diluted earnings per common share include the dilutive effect of stock options. Earnings per common share were computed as follows:

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2008	2007	2008	2007
Net income	$ 49,300	$ 41,800	$ 292,200	$ 188,500
Weighted average common shares outstanding	1,166,011	1,128,641	1,152,261	1,057,089
Effect of dilutive securities	43,536	67,610	49,907	64,492
Weighted average dilutive common shares outstanding	1,209,547	1,196,251	1,202,168	1,121,581
Basic earnings per common share	$ .04	$ .04	$ .25	$ .18
Diluted earnings per common share	$ .04	$ .03	$ .24	$ .17

7. Comprehensive Income:

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" establishes standards for disclosure of comprehensive income, which includes net income and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in the net unrealized gains or losses on securities.) The Company's only source of other comprehensive income is the net unrealized gain or loss on securities. The components of comprehensive income were as follows:

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2008	2007	2008	2007
Net Income	$ 49,300	$41,800	$292,200	$188,500
Other comprehensive income (loss):				
Unrealized holding gain				

(loss) arising during period	(20,000)	500	(28,400)	6,700
Plus reclassification adjustment for gain included in net income	-	-	-	(200)
Change in unrealized holding gain (loss)	(20,000)	500	(28,400)	6,500
Comprehensive income	$ 29,300	$42,300	$263,800	$195,000

8. Stock-Based Compensation Plans:

The Company maintains an Incentive Stock Option Plan. Grants through the fiscal year ended June 30, 2006, under this plan and a predecessor plan, were accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under this method, no stock-based compensation costs were reflected in net income, as all options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant.

Any stock-based compensation transaction subsequent to June 30, 2006 is accounted for using Statement of Financial Accounting Standards No. 123(R) "Share-Based Payment". This statement requires compensation costs related to stock-based payment transactions to be recognized commencing with the first reporting period in our 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 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company incurred stock-based compensation costs of $700 and $2,300 for the three and nine month periods ended March 31, 2008, respectively, and $4,000 for the three and nine month periods ended March 31, 2007.

9. Goodwill and Other Intangible Assets:

In conjunction with the acquisition of Altamira, management of the Company valued the tangible and intangible assets acquired, including customer relationships, non-compete agreements and technology which encompasses trade names, trademarks and licenses. The valuation resulted in an initial negative goodwill of

approximately $91,500 on the date of acquisition. Goodwill amounted to $101,300 as of March 31, 2008, mainly as a result of $154,000 of contingent consideration paid and accrued from date of acquisition through March 31, 2008 and $42,000 paid as additional consideration in September 2007. The related Stock Purchase Agreement provided for contingent future payments to the former shareholders equal to 5%, subject to certain limits, of net sales (no limit) of the catalyst research instrument operations, during each of the five periods described in Note 2.

The components of intangible assets as of March 31, 2008 are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
Technology	5 yrs.	$300,000	$ 80,000	$220,000
Customer relationships	10 yrs.	237,000	79,100	157,900
Non-compete agreement	5 yrs.	102,000	27,200	74,800
Other intangible assets	5 yrs.	115,400	78,900	36,500
		$754,400	$ 265,200	$489,200

Total amortization expense was $34,700 and $39,400 for the three months ended March 31, 2008 and 2007, respectively, and $112,800 and $59,600 for the nine months ended March 31, 2008 and 2007, respectively. As of March 31, 2008, estimated future amortization expense related to intangible assets is $26,600 for the remainder of fiscal year ending June 30, 2008, $131,000 for fiscal 2009, $119,300 for fiscal 2010, $107,500 for fiscal 2011, $50,200 for fiscal 2012, and $54,600 thereafter.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis or Plan of Operations

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

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

Liquidity and Capital Resources

Cash and cash equivalents increased by $725,600 to $1,114,300 as of March 31, 2008 from $388,700 as of June 30, 2007.

Net cash provided by operating activities was $930,200 for the nine months ended March 31, 2008 as compared to $225,300 for the comparable period in 2007, mainly the result of customer advances of $1,270,800 for orders of catalyst research instruments to be shipped in the near future, and higher income, partially offset by higher inventories. The Company usually requires advance deposits on orders for catalyst research instruments. The amount of such deposits at any given time can fluctuate significantly. Cash used in investing activities was $187,300 for the nine months ended March 31, 2008 as compared to $13,400 provided in the nine months ended March 31, 2007, which reflected significant redemptions of investments used for the November 30, 2006 acquisition of Altamira.

On September 30, 2007, the Board of Directors of the Company declared a cash dividend of $.07 per share of Common Stock which was paid on January 14, 2008 to holders of record as of the close of business on October 18, 2007.

The Company's working capital of $2,713,500 as of March 31, 2008 increased by $253,000 from the working capital of $2,460,500 at June 30, 2007. The Company has available for its working capital needs, a secured bank line of credit of $200,000 with North Fork Bank with interest at prime, all of which was available as of March 31, 2008. The Company has never borrowed under this line of credit. Management believes that the Company will be able to meet its cash flow needs during the 12 months ending March 31, 2009 from its available financial resources which include its cash and investment securities.

Results of Operations

Financial Overview

As a result of the Company's acquisition on November 30, 2006 of Altamira, the Company's consolidated results for the three and nine month periods ended March 31, 2008 and the three months ended March 31, 2007 include the results of Altamira for the full periods. The Company's consolidated results for the nine month period ended March 31, 2007 include Altamira's results for the period December 1, 2006 through March 31, 2007. In addition, the depreciation and amortization expense related to the acquired assets at their fair market value on date of acquisition is also included in the Company's results from date of acquisition.

The Company's income before income taxes increased $152,200 (54%) to $434,800 for the nine month period ended March 31, 2008 from $282,600 for the prior year same period, primarily as a result of the addition of the income of the Company's catalyst research instruments operations, which had a loss for the prior year's same nine month period.

Income before income taxes increased by $4,800 (7%) from $64,800 to $69,600, for the three month comparative periods ended March 31, 2008 and March 31, 2007. The small increase reflected (i) lower profits for the benchtop laboratory operations due to increased raw materials and research and development costs, and (ii) the loss incurred by the catalyst research instruments operations due to an inability to complete orders because of vendor-caused delays in delivery of a large order.

The Three Months Ended March 31, 2008 Compared With the Three Months Ended March 31, 2007

Both segments contributed to the increase in net sales for the three months ended March 31, 2008 of $40,800 (3.0%) to $1,381,800 as compared with $1,341,000 for the three months ended March 31, 2007. Sales of the catalyst research instruments differ from those of the benchtop laboratory equipment in that sales of the catalyst research instruments are comprised of a small number of larger orders, typically averaging more than $100,000 each; hence sales can vary greatly from period to period. As of March 31, 2008, there was an order backlog of $1,275,000 for catalyst research instruments, of which approximately $1,035,000 is scheduled to be fulfilled in the fourth quarter.

The gross profit percentage for the three months ended March 31, 2008 decreased to 35.9% from 38.4% for the three months ended March 31, 2007, mainly as a result of (i) lower gross margins for the catalyst research products resulting from lower sales while incurring certain fixed costs and (ii) increased basic raw material costs for the benchtop laboratory equipment operations.

General and administrative ("G&A") expenses for the three months ended March 31, 2008 decreased by $44,600 (16.0%) to $234,900 from $279,500 for the comparable 2007 period, primarily because the prior year period reflected higher professional fees, partially offset in the current year period by costs pertaining to Sarbanes-Oxley Act compliance.

Selling expenses for the three months ended March 31, 2008 decreased by $9,000 (7.9%) to $105,100 from $114,100 for the three months ended March 31, 2007, as a result of reduced marketing expenses of the benchtop laboratory equipment operations.

Research and development expenses for the three months ended March 31, 2008 increased by $39,200 (59.4%) to $105,200 from $66,000 for the three months ended March 31, 2007, due mainly to accelerated research and development activity for new benchtop laboratory equipment products.

Interest and other income, net increased by $8,900 (89.0%) from $10,000 to $18,900 for the three month comparative periods ended March 31, 2008 and 2007, mainly as a result of interest earned on customer advances on orders for catalyst research instruments.

Income tax expense for the three months ended March 31, 2008 was $20,300 compared to $23,000 for the 2007 comparative period.

As a result of the foregoing, net income for the three months ended March 31, 2008 increased by $7,500 (17.9%) to $49,300, from $41,800 for the three months ended March 31, 2007.

The Nine Months Ended March 31, 2008 Compared With the Nine Months Ended March 31, 2007

Net sales for the nine months ended March 31, 2008 increased by $1,320,500 (38.8%) to $4,727,700 as compared with $3,407,200 for the nine months ended March 31, 2007 as a result of the inclusion of revenues of the catalyst research instruments operations for the full nine months ended March 31, 2008, compared to only four months in the 2007 period, and a $263,100 (10.0%) increase in sales of the Company's benchtop laboratory equipment. Sales of the catalyst research instruments differ from those of the benchtop laboratory equipment in that sales of the catalyst research instruments are comprised of a small number of larger orders, typically averaging more than $100,000 each; hence sales revenues can vary greatly from period to period. As of March 31, 2008, there was an order backlog of $1,275,000 for catalyst research instruments, of which approximately $1,035,000 is scheduled to be fulfilled in the fourth quarter.

The gross profit percentage for the nine months ended March 31, 2008 decreased to 37.5% compared to 40.8% for the nine months ended March 31, 2007, mainly as a result of (i) lower gross margins for the catalyst research instruments resulting from lower sales during the three months ended March 31, 2008, higher sales of peripherals and additional engineer training costs and (ii) increased basic raw material costs for the benchtop laboratory equipment operations.

G & A expenses for the nine months ended March 31, 2008 increased by $96,500 (14.8%) to $748,200 from $651,700 for the comparable period of the prior year, principally the result of (i) the inclusion in the prior year period of the catalyst research instruments operations for only the four months ended March 31, 2007, (ii) increased staffing costs of the laboratory equipment operations, and (iii) costs pertaining to Sarbanes-Oxley Act compliance and (iv) increased directors fees.

14

Selling expenses for the nine months ended March 31, 2008 increased by $89,900 (34.2%) to $352,800 from $262,900 for the nine months ended March 31, 2007, as a result of the inclusion of the catalyst research instruments operations for only four months for the 2007 period, partially offset by lower marketing expenses of the benchtop laboratory equipment operations.

Research and development expenses for the nine months ended March 31, 2008 were $284,800, an increase of $50,400 (21.5%) from $234,400 for the nine months ended March 31, 2007, due mainly to accelerated research and development activity for new laboratory equipment products.

Interest and other income, net, increased by $7,000 (16.7%) to $48,800 for the nine month period ended March 31, 2008 compared to $41,800 for the prior year same period, primarily as a result of interest earned on customer advances on orders for catalyst research instruments.

Income tax expense for the nine months ended March 31, 2008 increased by $48,500 (51.5%) to $142,600 from $94,100 for the nine months ended March 31, 2007, mainly due to the higher income.

As a result of the foregoing, net income for the nine months ended March 31, 2008 was $292,200, an increase of $103,700 (55.0%) from $188,500 for the nine months ended March 31, 2007.

Item 3. Controls and Procedures

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

There was no change in the Company's internal controls over financial reporting that occurred during the most recent fiscal quarter that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

Part II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Number: Description

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

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

(b) Reports on Form 8-K:
None.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

SIGNATURE

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

Scientific Industries, Inc.
Registrant

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

Date: May 15, 2008