SCIENTIFIC INDUSTRIES INC
Form 10-Q
February 13, 2009

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

FORM 10-Q

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

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.
(Exact name of registrant as specified in its charter)

Delaware	04-2217279
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
70 Orville Drive, Bohemia, New York	11716
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated Filer	
Non-accelerated filer		Smaller reporting company	X

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the issuer's common stock par value, $0.05 per share, as of February 2, 2009 was 1,185,352 shares.

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2008	June 30, 2008
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 346,500	$1,065,500
Investment securities	572,300	682,400
Trade accounts receivable, less allowance for doubtful accounts of $11,600 as of December 31, and June 30, 2008	682,800	454,800
Inventories	1,576,100	1,521,400
Prepaid expenses and other current assets	82,700	84,700
Deferred taxes	65,800	31,400
Total current assets	3,326,200	3,840,200
Property and equipment at cost, less accumulated depreciation of $622,900 as of December 31, 2008 and $586,900 as of June 30, 2008	235,900	247,400
Intangible assets, less accumulated amortization of $368,900 as of December 31, 2008, and $299,900 as of June 30, 2008	388,900	454,600
Goodwill	199,600	158,400
Other	46,000	46,000
Deferred taxes	48,600	30,200
Total assets	$4,245,200	$4,776,800

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2008	June 30, 2008
Current Liabilities:		
Accounts payable	$ 207,900	$ 241,800
Customer advances	-	379,300
Accrued expenses and taxes	266,200	442,900
Loan payable, bank	50,000	-
Dividends payable	94,500	-
Total current liabilities	618,600	1,064,000
Shareholders' equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; 1,201,154 issued and outstanding at December 31, 2008 and June 30, 2008	60,000	60,000

Additional paid-in capital	1,508,600	1,507,000
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(79,500)	(44,400)
Retained earnings	2,189,900	2,242,600
	3,679,000	3,765,200
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	3,626,600	3,712,800
Total liabilities and shareholders' equity	$4,245,200	$4,776,800

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2008	2007	2008	2007
Net sales	$1,755,100	$1,845,600	$2,727,400	$3,345,900
Cost of goods sold	1,139,600	1,211,700	1,776,600	2,070,000
Gross profit	615,500	633,900	950,800	1,275,900
Operating Expenses:				
General & administrative	249,400	267,700	495,000	513,300
Selling	85,800	123,900	200,100	247,700
Research & development	117,600	119,200	214,200	179,600
	452,800	510,800	909,300	940,600
Income from operations	162,700	123,100	41,500	335,300
Interest & other income, net	6,900	16,900	17,900	29,900
Income before income taxes	169,600	140,000	59,400	365,200
Income tax expense (benefit):				
Current	58,100	48,200	36,400	142,200
Deferred	(8,500)	(4,400)	(18,800)	(19,900)
	49,600	43,800	17,600	122,300
Net income	$ 120,000	$ 96,200	$ 41,800	$ 242,900
Basic earnings per common share	$ .10	$ .08	$ .04	$ .21

Diluted earnings per common share	$ .10	$ .08	$ .03	$ .20
Cash dividends declared per common share	$ -	$ -	$ .08	$ .07

See notes to unaudited condensed consolidated financial statements

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

	For the Six Month Periods Ended December 31, 2008	December 31, 2007
Operating activities:		
Net income	$ 41,800	$ 242,900
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	105,000	111,600
Deferred income taxes	(18,800)	(19,900)
Stock-based compensation	1,500	1,500
Income tax benefit of stock options exercised	-	7,000
Changes in assets and liabilities:		
Accounts receivable	(228,000)	(404,000)
Inventories	(54,700)	(93,200)
Prepaid expenses and other current assets	2,000	(121,700)
Other assets	-	(400)
Accounts payable	(33,900)	(40,000)
Customer advances	(379,300)	1,102,300
Accrued expenses and taxes	(73,000)	87,100
Total adjustments	(679,200)	630,300
Net cash provided by (used in) operating activities	(637,400)	873,200
Investing activities:		
Additional consideration for acquisition of Altamira Instruments, Inc.	(144,900)	(102,800)
Purchase of investment securities, available-for-sale	(8,900)	(12,600)
Redemptions of investment securities, available-for-sale	50,000	-
Capital expenditures	(24,400)	(33,300)
Purchase of intangible assets	(3,400)	(3,600)
Net cash used in investing activities	(131,600)	(152,300)

Financing activities:		
Proceeds from exercise of stock options	-	16,000
Proceeds from line of credit, bank	50,000	-
Net cash provided by financing activities	50,000	16,000
Net increase (decrease) in cash and cash equivalents	(719,000)	736,900
Cash and cash equivalents, beginning of year	1,065,500	388,700
Cash and cash equivalents, end of period	$ 346,500	$1,125,600
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	$ 125,000	$ 87,900

See notes to unaudited condensed consolidated financial statements

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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-Q. 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 that they 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, 2008. The results for the three and six months ended December 31, 2008, are not necessarily an indication of the results of the full fiscal year ending June 30, 2009.

1. Summary of significant accounting policies:

Principles of consolidation:

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

Stock-based compensation:

Stock-based compensation is accounted for using Statement of Financial Accounting Standards No. 123R "Share-Based Payment", which 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.

2. Recent Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In January 2008, the FASB deferred the effective date for one year for certain non-financial assets and non-financial liabilities, except those that are

recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of this standard and such application had no impact on the Company's financial condition, results of operations, or cash flows.

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 allows entities to choose to measure eligible financial instruments at fair value with changes in fair value recognized in earnings of each subsequent reporting date. The fair value election is available for most financial assets and liabilities on an instrument-by-instrument basis and is to be elected on the date the financial instrument is initially recognized. SFAS 159 is effective for all entities as of the beginning of a reporting entity's first fiscal year that begins after November 15, 2007 (with earlier application permitted under certain circumstances). The adoption of SFAS No. 159 had no impact on the Company's financial position or statement of operations.

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3 on its financial position and results of operations.

3. Acquisition of Altamira Instruments, Inc.:

On November 30, 2006, the Company acquired all of the outstanding capital stock of Altamira. The acquisition was pursuant to a Stock Purchase Agreement (the "Agreement") whereby the Company paid to the sellers $400,000, issued to them 125,000 shares of the Company's Common Stock and agreed to make additional cash payments equal to 5%, subject to 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.

Altamira's principal customers are universities, government laboratories, and chemical and petrochemical companies. The instruments are customized to the customer's specifications, and 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 8, "Goodwill and Other Intangible Assets" which represent the valuations determined 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.

As of December 31, 2008, the adjusted aggregate purchase price of $1,176,100 was allocated to assets acquired and liabilities assumed as follows:

Current assets	$ 734,000
Property and equipment	140,300
Non-current assets	25,100
Goodwill	199,600
Other intangible assets	639,000*
Current liabilities	(561,900)
Adjusted purchase price	$1,176,100

*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 other intangible assets are being amortized on a straight-line basis except that the amount allocated to the customer relationships is being amortized on an accelerated (declining balance) method.

4. Segment Information and Concentrations:

The Company views its operations as two segments: the manufacture and marketing of standard benchtop laboratory equipment for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors ("Benchtop Laboratory Equipment Operations"), and the manufacture and marketing of custom-made catalyst research instruments for universities, government laboratories, and chemical and petrochemical companies sold on a direct basis ("Catalyst Research Instruments Operations").

Segment information is reported as follows:

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Three months ended December 31, 2008:				
Net Sales	$1,015,900	$ 739,200	$ -	$1,755,100
Foreign Sales	645,200	22,200	-	667,400
Segment Profit	109,400	53,300	6,900	169,600
Segment Assets	2,325,700	1,033,300	886,200	4,245,200
Long-Lived Asset Expenditures	1,500	17,200	-	18,700
Depreciation and Amortization	14,500	37,500	-	52,000

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Three months ended December 31, 2007:				
Net Sales	$ 988,800	$ 856,800	$ -	$1,845,600
Foreign Sales	579,500	-	-	579,500
Segment Profit	29,900	96,400	13,700	140,000
Long-Lived Asset Expenditures	12,100	2,000	-	14,100
Depreciation and Amortization	14,800	41,000	-	55,800

Approximately 69% and 71% of net sales of benchtop laboratory equipment for the three month periods ended December 31, 2008 and 2007, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two benchtop laboratory equipment customers accounted in the aggregate for approximately 30% of the segment's net sales (17% of total net sales) and 27% of the segment's net sales (14% of total net sales) for the three month periods ended December 31, 2008 and 2007, respectively. One of the two customers, a major distributor, which accounted for approximately 14% and 15% of the segment's net sales for the three month periods ended December 31, 2008 and 2007, respectively (8% of total net sales for each period) discontinued the inclusion of the Company's benchtop laboratory equipment products in its new catalog which was released in January 2009. While the customer is continuing to sell the products through its website, Company advertisements in the distributor's interim publications, and directly upon customer requests, to mitigate the possible material adverse effect of the discontinuance, the Company plans to increase advertisements in the distributor's interim publications, and expand its selling efforts with a view to increasing sales to other existing distributors. No assurances can be given that the Company will be successful in those efforts.

Sales of catalyst research instruments are generally pursuant to large orders averaging more than $100,000 per order to a limited numbers of customers. Three and two customers accounted for 96% and 84% of that segment's net sales (38% and 39% of total net sales) for the three months ended December 31, 2008 and 2007, respectively.

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Six months ended December 31, 2008:				
Net Sales	$1,902,400	$ 825,000	$ -	$2,727,400
Foreign Sales	1,125,700	91,500	-	1,217,200
Segment Profit (Loss)	201,700	(157,900)	15,600	59,400
Segment Assets	2,325,700	1,033,300	886,200	4,245,200
Long-Lived Asset Expenditures	4,600	19,800	-	24,400
Depreciation and Amortization	29,500	75,500	-	105,000

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Corporate and Other	Consolidated
Six months ended December 31, 2007:				
Net Sales	$1,936,300	$1,409,600	$ -	$3,345,900
Foreign Sales	986,900	347,800	-	1,334,700
Segment Profit	193,500	147,600	24,100	365,200
Long-Lived Asset Expenditures	26,000	7,300	-	33,300
Depreciation and Amortization	28,600	83,000	-	111,600

Approximately 69% and 70% of net sales of benchtop laboratory equipment for the six month periods ended December 31, 2008 and 2007, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two benchtop laboratory equipment customers, accounted in the aggregate for approximately 31% of the segment's net sales for each six month period (22% and 18% of total net sales for the 2008 and 2007 periods, respectively). One of the two, the major distributor discussed in this footnote (which discontinued the inclusion of the Company's products in its new catalog), accounted for approximately 17% and 20% of the segment's net sales for the 2008 and 2007 six month periods, respectively, (12% of total net sales for each period).

Sales of catalyst research instruments to three customers, accounted for approximately 78% of that segment's net sales (23% of total net sales) for the six months ended December 31, 2008. Sales to three other customers accounted for 72% of the segment's net sales (30% of total net sales) for the six month period ended December 31, 2007.

The Company's foreign sales are principally made to customers in Europe and Asia.

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:

	December 31, 2008	June 30, 2008
Raw Materials	$1,120,200	$1,037,900
Work in process	298,100	288,600
Finished Goods	157,800	194,900
	$1,576,100	$1,521,400

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, if any.

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Earnings (loss) per common share was computed as follows:

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2008	2007	2008	2007
Net income	$ 120,000	$ 96,200	$ 41,800	$ 242,900
Weighted average common shares outstanding	1,181,352	1,145,569	1,181,352	1,145,461
Effect of dilutive securities	28,246	52,901	32,516	53,093

Weighted average dilutive common shares outstanding	1,209,598	1,198,470	1,213,868	1,198,554
Basic earnings per common share	$ .10	$ .08	$ .04	$ .21
Diluted earnings per common share	$ .10	$ .08	$ .03	$ .20

Approximately 6,500 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted earnings per common share for the three and six months ended December 31, 2008, because the effect would be anti-dilutive.

7. Comprehensive Income (Loss):

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" establishes standards for disclosure of comprehensive income or loss, 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 (loss) were as follows:

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2008	2007	2008	2007
Net Income	$120,000	$ 96,200	$ 41,800	$242,900
Other comprehensive (loss):				
Unrealized holding loss arising during period, net of tax	(32,200)	(6,200)	(48,400)	(8,400)
Comprehensive income (loss)	$ 87,800	$ 90,000	($ 6,600)	$234,500

8. Goodwill and Other Intangible Assets:

In conjunction with the acquisition of Altamira, management of the Company evaluated the tangible and intangible assets acquired, including customer relationships, non-compete agreements and technology which encompasses trade names, trademarks and licenses. The acquisition agreement provides contingent additional payments to

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 accrued for the six months ended December 31, 2008 amounted to $41,200, which resulted in an increase of goodwill to $199,600 at December 31, 2008 from $158,400 at June 30, 2008.

The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At December 31, 2008:				
Technology	5 yrs.	$300,000	$125,000	$175,000
Customer relationships	10 yrs.	237,000	112,600	124,400
Non-compete agreement	5 yrs.	102,000	42,500	59,500
Other intangible assets	5 yrs.	118,800	88,800	30,000
		$757,800	$368,900	$388,900

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2008:				
Technology	5 yrs.	$300,000	$ 95,000	$205,000
Customer relationships	10 yrs.	237,000	90,600	146,400
Non-compete agreement	5 yrs.	102,000	32,300	69,700
Other intangible assets	5 yrs.	115,500	82,000	33,500
		$754,500	$299,900	$454,600

Total amortization expense was $34,100 and $38,300 for the three months ended December 31, 2008 and 2007, respectively and $69,000 and $78,100 for the six months ended December 31, 2008 and 2007, respectively. As of December 31, 2008, estimated future amortization expense related to intangible assets is $62,300 for the last six months of fiscal year ending June 30, 2009, $119,600 for fiscal 2010, $107,900 for fiscal 2011, $51,000 for fiscal 2012, $11,500 for fiscal 2013, and $36,600 thereafter.

9. Line of Credit

The Company has a line of credit with Capital One Bank, N.A. ("Bank"), which provides for maximum borrowings of up to $500,000. Interest is charged at the Bank's prime rate, which was 3.25% as of December 31, 2008. The Company had borrowings outstanding of $50,000 under this line of credit as of December 31, 2008.

The line of credit is collaterized by the Company's assets to the extent borrowed and outstanding and all outstanding amounts are due and payable on November 1, 2009.

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 decreased by $719,000 to $346,500 as of December 31, 2008 from $1,065,500 as of June 30, 2008 primarily due to the significant use in the 2008 period of cash advanced in the prior year period and significantly lower new cash advances from catalyst research instruments customers.

Net cash used in operating activities was $637,400 for the six months ended December 31, 2008 as compared to net cash provided by operating activities of $873,200 for the comparable six month period in 2007; the change was due mainly to the use of a substantial amount of the cash advanced in the prior year period from catalyst research instruments customers, and lower income. Cash used in investing activities was $131,600 for the six months ended December 31, 2008, compared to $152,300 for the six months ended December 31, 2007 mainly due to investment redemptions during the current year period. Net cash provided by financing activities increased to $50,000 compared to $16,000 for the 2007 period due to a $50,000 borrowing under the Company's line of credit with its bank.

On September 26, 2008, the Board of Directors of the Company declared a cash dividend of $.08 per share of Common Stock which was paid on January 15, 2009 to holders of record as of the close of business on October 27, 2008.

The Company's working capital decreased by $68,600 to $2,707,600 as of December 31, 2008 from working capital of $2,776,200 at June 30, 2008 mostly due to lower income for the six months ended December 31, 2008. The Company has available for its working capital needs, a new one-year line of credit of $500,000 with Capital One Bank, N.A. replacing an unused $200,000 line of credit originally made available to the Company in November 2003. The Company had borrowings of $50,000 outstanding under this line at December 31, 2008. Advances under the line are secured by the Company's assets and bears interest at the bank's prime rate. Management believes that the Company will be able to meet its cash flow needs during the 12 months ending December 31, 2009 from its available financial resources including the remaining line of credit amount, its cash and investment securities, and operations.

Results of Operations

Financial Overview

The Company's income before income taxes was $169,600 and $59,400, respectively, for the three and six month periods ended December 31, 2008 compared to $140,000 and $365,200 for the 2007 periods. For the comparative three month periods, the benchtop laboratory equipment operations had an increase in profits of $79,500 (266%) principally due to higher sales and gross margins, and lower research and development expenses, while the catalyst research instruments operations experienced a decrease in profits of $43,100 (45%), mainly the result of lower sales. For the comparative six month periods, the benchtop laboratory equipment operations' profits were approximately the same. The catalyst research instruments operations, however, incurred a loss of $157,900 for the six months ended December 31, 2008 as compared to a profit of $147,600 for the prior year six month period. The loss was the result of lower sales due to slower order input and to a lesser extent, increased research and development expenses for new product development, which was partially offset by lower sales commissions. Sales by the catalyst research instrument operations comprise a small number of large orders, (typically averaging more than $100,000 each) and as a result, the segment experiences significant swings in its revenues and results. As of December 31, 2008, backlog for this segment was $828,000, substantially all of which is expected to be shipped and recognized in the current fiscal year.

While the slowdown in the nation's economy has had to date only a limited adverse effect on the Company's operations, no representation can be made as to the adverse effect and its duration on the Company's results particularly as to research grants to customers which fund in part their benchtop laboratory equipment purchases and the financings of potential customers for the purchase of catalyst research instruments.

The Three Months Ended September 30, 2008 Compared With the Three Months Ended September 30, 2007

Net sales for the three months ended December 31, 2008 decreased $90,500 (4.9%) to $1,755,100 from $1,845,600 for the three months ended December 31, 2007 as a result of lower sales of catalyst research instruments. Sales of benchtop laboratory equipment products generally are pursuant to many small purchase orders from distributors. The Company learned in January 2009 that the new catalog of one of its distributors, to which the Company had sales accounting for 14% and 15% of the segment's net sales for the three months ended December 31, 2008 and 2007, respectively, no longer includes the Company's products. The products will continue to be offered by the distributor through its website, advertisements in distributor's interim publications, and by telephone inquiries. To mitigate the possible adverse effect, the Company plans to increase its advertisements in the distributor's interim publications and expand its selling efforts to other distributors. No assurances can be given that such efforts will be successful.

Sales of the catalyst research instruments are comprised of a small number of larger orders, typically averaging over $100,000 each; hence sales revenues are subject to significant swings. As of December 31, 2008 there was a backlog of $828,000 for catalyst research instruments (substantially all of which is expected to be shipped and recognized in the current fiscal year) compared to $1,600,000 as of December 31, 2007.

The gross profit percentage for the three months ended December 31, 2008 increased to 35.1% from 34.3% for the three months ended December 31, 2007, mainly due to lower direct labor and overhead costs for the benchtop laboratory equipment operations and the product mix for the catalyst research instrument operations.

General and administrative expenses ("G&A") for the three month comparative periods ended December 31, 2008 and December 31, 2007 decreased slightly by $18,300 (6.8%) to $249,400 from $267,700 primarily as a result of lower executive compensation.

Selling expenses for the three months ended December 31, 2008 decreased $38,100 (30.8%) to $85,800 compared to $123,900 for the three months ended December 31, 2007, due primarily to lower commissions with respect to sales of catalyst research instruments. The Company intends to expand its benchtop laboratory equipment sales efforts to include the engagement of one full-time sales person.

Interest and other income for the three months ended December 31, 2008 decreased by $10,000 (59.2%) to $6,900 compared to $16,900 for the three months ended December 31, 2007 as a result of the reduction of the balances of cash and investments.

Income tax expense for the three months ended December 31, 2008 was $49,600 compared to $43,800 for the three months ended December 31, 2007, mainly due to the higher income.

As a result of the foregoing, net income for the three months ended December 31, 2008 was $120,000, an increase of $23,800 (24.7%) from $96,200 for the three months ended December 31, 2007.

The Six Months Ended December 31, 2008 Compared With the Six Months Ended December 31, 2007

Net sales for the six months ended December 31, 2008 decreased by $618,500 (18.5%)to $2,727,400 compared to $3,345,900 for the six months ended December 31, 2007, due to a $584,600 reduction in catalyst research instruments net sales, and a $33,900 reduction in benchtop laboratory equipment sales. Sales of benchtop laboratory equipment products generally are comprised of many small purchase orders from distributors. The Company learned in January 2009 that the new catalog of one of its distributors, sales to which accounted for 17% and 20% of the segment's net sales for the six month periods ended December 31, 2008, and 2007, respectively, no longer includes the Company's products. The products will continue to be offered by the distributors through its website, advertisements in distributor's interim publications, and by telephone inquiries. To mitigate the possible adverse effect, the Company plans to increase its advertisements in the distributor's interim publications and expand its selling efforts to other distributors. No assurances can be given that such efforts will be successful.

Sales of catalyst research instruments are comprised of a small number of large orders, typically averaging over $100,000 each; hence revenues are subject to significant swings. As of December 31, 2008 there was a backlog of $828,000 for the catalyst research instruments compared to $1,600,000 as of December 31, 2007.

The gross profit percentage for the six months ended December 31, 2008 decreased to 34.9% compared to 38.1% for the six months ended December 31, 2007, mainly due to lower net sales for the catalyst research instruments operations.

G & A expenses for the six months ended December 31, 2008 decreased slightly by $18,300 (3.6%) to $495,000 from $513,300 for the comparable period last year, primarily as a result of lower executive compensation.

Selling expenses for the six months ended December 31, 2008 decreased by $47,600 (19.2%) to $200,100 from $247,700 for the six months ended December 31, 2007, due primarily to lower commissions with respect to catalyst research instruments sales.

Research and development expenses for the six months ended December 31, 2008 increased $34,600 (19.3%) to $214,200 compared to $179,600 for the six months ended December 31, 2007, primarily the result of an increase in catalyst research instruments product development.

Interest and other income for the six month periods ended December 31, 2008 decreased by $12,000 (40.1%) to $17,900 compared to $29,900 for the six months ended December 31, 2007, mainly the effect of smaller cash and investment securities balances.

Income tax expense for the six months ended December 31, 2008 was $17,600 compared to $122,300 for the six months ended December 31, 2007, mainly due to the lower income.

As a result of the foregoing, net income for the six months ended December 31, 2008 was $41,800, a decrease of $201,100 (82.8%) from $242,900 for the six months ended December 31, 2007.

Item 4. Controls and Procedures

Evaluation of Disclosure 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.

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

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:
On October 30, 2008 Registrant filed a Report on Form 8-K, reporting under Item 1.01.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

SIGNATURE

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

Scientific Industries, Inc.
Registrant

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

Accounting Officer

Date: February 13, 2009