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SCIENTIFIC INDUSTRIES INC
Form 10-Q
November 16, 2009

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For quarterly period ended September 30, 2009

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 No

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

Large accelerated filer _____

Accelerated Filer _____

Non-accelerated filer _____

Smaller reporting company _____

(Do not check if a smaller

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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 November 6, 2009 was 1,196,577 shares.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

September 30, 2009	June 30, 2009
-----	-----

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Current Assets:	(Unaudited)	
Cash and cash equivalents	\$ 654,500	\$ 738,400
Investment securities	638,700	605,500
Trade accounts receivable, net	621,100	806,700
Inventories	1,974,100	1,598,000
Prepaid expenses and other current assets	50,300	91,600
Deferred taxes	71,200	63,400
	-----	-----
Total current assets	4,009,900	3,903,600
Property and equipment at cost, net	228,200	241,200
Intangible assets, net	300,200	330,900
Goodwill	277,000	265,400
Other assets	25,700	25,700
Deferred taxes	71,500	64,200
	-----	-----
Total assets	\$4,912,500	\$4,831,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 131,500	\$ 137,400
Customer advances	541,700	359,600
Accrued expenses and taxes	243,100	423,500
Dividends payable	71,800	-
	-----	-----
Total current liabilities	988,100	920,500
	-----	-----
Shareholders' Equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,216,379 and 1,212,379 issued and outstanding at September 30, 2009 and June 30, 2009	60,800	60,600
Additional paid-in capital	1,520,200	1,514,300
Accumulated other comprehensive loss	(43,500)	(79,600)
Retained earnings	2,439,300	2,467,600
	-----	-----
	3,976,800	3,962,900
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
	-----	-----
Total shareholders' equity	3,924,400	3,910,500
	-----	-----
Total liabilities and shareholders' equity	\$ 4,912,500	\$4,831,000
	=====	=====

See notes to unaudited condensed consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Month Periods Ended September 30,	
	2009	2008
Net sales	\$1,244,000	\$ 972,300
Cost of goods sold	708,200	637,200
Gross profit	535,800	335,100
Operating Expenses:		
General & administrative	229,600	245,600
Selling	142,200	114,200
Research & development	108,500	96,600
	480,300	456,400
Income (loss) from operations	55,500	(121,300)
Interest & other income, net	4,100	11,200
Income (loss) before income taxes	59,600	(110,100)
Income tax expense (benefit):		
Current	24,500	(21,700)
Deferred	(8,400)	(10,300)
	16,100	(32,000)
Net income (loss)	\$ 43,500	(\$ 78,100)
Basic earnings (loss) per common share	\$.04	(\$.07)
Diluted earnings (loss) per common share	\$.04	(\$.07)
Cash dividends declared per common share	\$.06	\$.08

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended	
	Sept. 30, 2009	Sept. 30, 2008
Operating activities:		
Net income (loss)	\$ 43,500	(\$ 78,100)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	51,700	52,800
Deferred income taxes	(8,400)	(10,300)
Income tax benefit of stock options exercised	400	-
Stock-based compensation	400	700
Changes in assets and liabilities:		
Accounts receivable	185,600	6,700
Inventories	(376,100)	(339,900)
Prepaid expenses and other current assets	41,300	22,300
Accounts payable	(5,900)	(54,300)
Customer advances	182,100	(21,800)
Accrued expenses and taxes	(84,900)	(90,200)
Total adjustments	(13,800)	(434,000)
Net cash provided by (used in) operating activities	29,700	(512,100)
Investing activities:		
Additional consideration for acquisition of Altamira Instruments, Inc.	(107,000)	(144,900)
Purchase of investment securities, available-for-sale	(3,800)	(3,600)
Capital expenditures	(6,600)	(5,700)
Purchases of intangible assets	(1,500)	(3,400)
Net cash used in investing activities	(118,900)	(157,600)
Financing activities,		
proceeds from exercise of stock options	5,300	-
Net decrease in cash and cash equivalents	(83,900)	(669,700)
Cash and cash equivalents, beginning of period	738,400	1,065,500
Cash and cash equivalents, end of period	\$ 654,500	\$ 395,800
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 116,800	\$ 75,000

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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-K, for the fiscal year ended June 30, 2009. The results for the three months ended September 30, 2009, are not necessarily an indication of the results of the full fiscal year ending June 30, 2010.

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.

2. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP") which became the single source of authoritative, nongovernmental GAAP in the United States, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are additional sources of authoritative GAAP for SEC registrants. The Codification did not change GAAP, but it introduced a new indexing structure for GAAP literature that is organized by topic in an online research system. Adoption of the Codification in the three month period ended September 30, 2009 had no impact on the Company's condensed consolidated financial statements.

In May 2009, the FASB issued new accounting guidance which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new accounting guidance requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date

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the financial statements were issued or were available to be issued. The Company's adoption of this accounting guidance had no impact on its consolidated financial statements. The Company evaluated

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subsequent events through November 16, 2009, the date this Quarterly Report on Form 10-Q was filed.

In April 2009, the FASB issued additional accounting guidance on how to determine fair value of financial assets and liabilities when the volume and level of activity for an asset or liability have significantly decreased and how to identify transactions that are not orderly in light of the current economic environment. If the Company were to conclude that there has been a significant decrease in the volume and level of activity of an asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and the Company may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. The accounting guidance also clarified the recognition and presentation of other-than-temporary impairments of securities to bring consistency to the timing of impairment recognition, and provide clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. In addition, the accounting guidance required disclosures about fair value of financial instruments in annual financial statements of publicly traded companies to also be disclosed during interim reporting periods. The Company's adoption of the accounting guidance in the three month period ended September 30, 2009 had no impact on the Company's consolidated financial statements and only required additional financial statement disclosures (see Note 5).

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 in cash, and 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 customizable 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 9, "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

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acquisition, primarily adjustments to property and equipment, and inventory.

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As of September 30, 2009, the total adjusted aggregate purchase price, including the additional cash payments of \$329,700 which have been paid or accrued, was allocated to acquired assets acquired and liabilities assumed as follows:

Current assets	\$ 734,000
Property and equipment	140,300
Non-current assets	25,100
Goodwill	277,000
Other intangible assets	639,000*
Current liabilities	(561,900)

Net purchase price	\$1,253,500
	=====

*Of the \$639,000 of other intangible assets, \$237,000 was allocated to customer relationships with an 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.

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 September 30, 2009:				
Net Sales	\$1,011,600	\$ 232,400	\$ -	\$1,244,000
Foreign Sales	510,900	145,500	-	656,400
Segment Profit (Loss)	121,500	(61,900)	-	59,600
Segment Assets	2,161,000	1,693,000	1,058,500	4,912,500
Long-Lived Asset Expenditures	8,100	-	-	8,100
Depreciation and				

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Amortization	15,900	35,800	-	51,700
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	Benchtop Laboratory Equipment -----	Catalyst Research Instruments -----	Corporate and Other -----	Consolidated -----
Three months ended September 30, 2008:				
Net Sales	\$ 886,600	\$ 85,700	\$ -	\$ 972,300
Foreign Sales	480,500	69,200	-	549,700
Segment Profit (Loss)	100,900	(211,000)	-	(110,100)
Segment Assets	2,351,100	1,120,800	897,400	4,369,300
Long-Lived Asset Expenditures	6,500	2,600	-	9,100
Depreciation and Amortization	14,800	38,000	-	52,800

Approximately 65% and 69% of net sales of benchtop laboratory equipment for the three month periods ended September 30, 2009 and 2008, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Two customers accounted in the aggregate for approximately 34% (28% of total sales) and 33% (30% of total sales) of the benchtop laboratory equipment operations' net sales for the three month periods ended September 30, 2009 and 2008, respectively. Sales of catalyst research instruments generally comprise a few very large orders averaging \$100,000 per order to a limited numbers of customers, who differ from order to order. Sales pursuant to two customers represented approximately 91% of the Catalyst Research Instrument Operations' net sales (17% of total sales) for the three months ended September 30, 2009, and sales pursuant to an order from a different customer represented 60% of the segment's sales (5% of total sales) for the three months ended September 30, 2008.

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

5. Fair Value of Financial Instruments:

The FASB defines the fair value of financial instruments as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements do not include transaction costs.

The accounting guidance also expands the disclosure requirements around fair value and establishes a fair value hierarchy of valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are as follows:

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- Level 1 Inputs that are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

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- Level 3 Prices or valuation that require inputs that are both significant to the fair value measurement and unobservable.

The following tables set forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis at September 30, 2009 and June 30, 2009 according to the valuation techniques the Company used to determine their fair values:

Fair Value Measurements Using Inputs Considered as

	Fair Value at September 30, 2009	Level 1	Level 2	Level 3
Cash and cash equivalents Available for sale securities	\$ 654,500	\$ 654,500	\$ -	\$ -
	638,700	638,700	-	-
Total	\$1,293,200	\$1,293,200	\$ -	\$ -

Fair Value Measurements Using Inputs Considered as

	Fair Value at June 30, 2009	Level 1	Level 2	Level 3
Cash and cash equivalents Available for sale securities	\$ 738,400	\$ 738,400	\$ -	\$ -
	605,500	605,500	-	-
Total	\$ 1,343,900	\$1,343,900	\$ -	\$ -

Investments in marketable securities classified as available-for-sale by security type at September 30, 2009 and June 30, 2009 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At September 30, 2009:			

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Available for sale:			
Equity securities	\$ 7,600	\$ 9,900	\$ 2,300
Mutual funds	674,600	628,800	(45,800)
	-----	-----	-----
	\$ 682,200	\$ 638,700	\$ (43,500)
	=====	=====	=====

	Cost	Fair Value	Unrealized Holding Gain (Loss)
	-----	-----	-----
At June 30, 2009:			
Available for sale:			
Equity securities	\$ 6,200	\$ 8,900	\$ 2,700
Mutual funds	678,900	596,600	(82,300)
	-----	-----	-----
	\$ 685,100	\$ 605,500	\$ (79,600)
	=====	=====	=====

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6. 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:

	September 30, 2009	June 30, 2009
	-----	-----
Raw Materials	\$1,054,300	\$1,068,500
Work in process	715,400	321,000
Finished Goods	204,400	208,500
	-----	-----
	\$1,974,100	\$1,598,000
	=====	=====

7. Earnings (loss) per common share:

Basic earnings (loss) per common share are computed by dividing net income (loss) by the weighted-average number of shares outstanding. Diluted earnings (loss) per common share include the dilutive effect of stock options, if any.

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

	For the Three Month Periods Ended September 30,	
	-----	-----
	2009	2008
	-----	-----
Net income (loss)	\$ 43,500	(\$ 78,100)
	=====	=====
Weighted average common		

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shares outstanding	1,194,534	1,181,352
Dilutive securities	9,895	-
	-----	-----
Weighted average dilutive common shares outstanding	1,204,429	1,181,352
	=====	=====
Basic earnings (loss) per common share	\$.04	(\$.07)
	=====	=====
Diluted earnings (loss) per common share	\$.04	(\$.07)
	=====	=====

Approximately 22,500 and 66,000 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted earnings or loss per common share for the three months ended September 30, 2009 and 2008, respectively, because the effect would be anti-dilutive.

8. Comprehensive Income (Loss):

The FASB 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 or loss is the net unrealized gain or loss on securities. The components of comprehensive income (loss) were as follows:

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	For the Three Month Periods Ended September 30,	
	2009	2008
	-----	-----
Net income (loss)	\$ 43,500	(\$ 78,100)
Other comprehensive gain (loss):		
Unrealized holding gain (loss) arising during period	36,100	(23,100)
	-----	-----
Comprehensive income (loss)	\$ 79,600	(\$ 101,200)
	=====	=====

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 which was subsequently adjusted to positive goodwill of \$277,000 and \$265,400 at September 30, 2009 and June 30, 2009, respectively, all of which is deductible for tax purposes. The related agreement provides for contingent

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payments to the former shareholders based on net sales for five designated periods of the Catalyst Research Instrument Operations subject to certain limits, which are expected to be earned and paid. Additional consideration amounted to \$11,600 and \$4,200 for the three months ended September 30, 2009, and 2008, respectively.

The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At September 30, 2009:				
Technology	5 yrs.	\$ 300,000	\$ 170,000	\$ 130,000
Customer relationships	10 yrs.	237,000	137,500	99,500
Non-compete agreement	5 yrs.	102,000	57,800	44,200
Other intangible assets	5 yrs.	125,900	99,400	26,500
		\$ 764,900	\$ 464,700	\$ 300,200

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2009:				
Technology	5 yrs.	\$ 300,000	\$ 155,000	\$ 145,000
Customer relationships	10 yrs.	237,000	129,200	107,800
Non-compete agreement	5 yrs.	102,000	52,700	49,300
Other intangible assets	5 yrs.	124,400	95,600	28,800
		\$ 763,400	\$ 432,500	\$ 330,900

Total amortization expense was \$30,700 and \$34,900 for the three months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, estimated future amortization expense related to intangible assets is \$90,700 for the remainder of the fiscal year ending June 30, 2010, \$109,500 for fiscal 2011, \$52,600 for fiscal 2012, \$13,000 for fiscal 2013, \$9,300 for fiscal 2014, and \$25,100 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 to customers' specifications catalyst research instruments, adverse economic

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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 \$83,900 to \$654,500 as of September 30, 2009 from \$738,400 as of June 30, 2009.

Net cash provided by operating activities was \$29,700 for the three months ended September 30, 2009 as compared to net cash used in operating activities of \$512,100 for the comparable three month period in 2008, due mainly to the income generated during the current year period, lower accounts receivable balances and monies received in advance from customers of Altamira for future orders. Cash used in investing activities was \$118,900 for the three month period ended September 30, 2009 compared to \$157,600 for the three month period ended September 30, 2008 due primarily to a lower amount of contingent consideration paid for the acquisition of Altamira Instruments, Inc. The only financing activity was the exercise during the three months ended September 30, 2009 in the amount of \$5,300 of stock options.

On September 17, 2009, the Board of Directors of the Company declared a cash dividend of \$.06 per share of Common Stock payable on December 21, 2009 to holders of record as of the close of business on October 23, 2009.

The Company's working capital increased by \$38,700 to \$3,021,800 as of September 30, 2009 from the working capital of \$2,983,100 at June 30, 2009 mainly as result of the income for the current three month period. The Company had available for its working capital needs, a one-year line of credit of \$500,000 with Capital One Bank which expired November 1, 2009, and is currently under renewal negotiations for a one-year extension. Advances were secured by the Company's assets and bore 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 September 30, 2010 from its available financial resources including the line of credit which the Company believes will be renewed and its cash and investment securities.

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Results of Operations

Financial Overview

The Company recorded income before income taxes of \$59,600 for the three months ended September 30, 2009 compared to a loss before income tax benefit of \$110,100 for the three months ended September 30, 2008, primarily because of the improved results, resulting mainly from higher sales, for the current year period for both

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of its business segments. The Company's Benchtop Laboratory Equipment Operations achieved increases in both domestic and foreign sales compared to the same period last year, which resulted in a higher segment profit of \$121,500 for the current year period compared to a segment profit of \$100,900 for the comparable period last year. The Catalyst Research Instrument Operations recorded a segment loss of \$61,900 for the current period compared to a segment loss of \$211,000 for the three months ended September 30, 2008. As of September 30, 2009, the Catalyst Research Instrument Operations had an order backlog of \$1,100,000, all of which is expected to be fulfilled by December 31, 2009, compared to \$890,000 as of September 30, 2008.

The Three Months Ended September 30, 2009 Compared With the Three Months Ended September 30, 2008

Net sales for the three months ended September 30, 2009 increased by \$271,700 (27.9%) to \$1,244,000 as compared with \$972,300 for the three months ended September 30, 2008, mainly due to a \$146,700 (171.2%) increase in sales of catalyst research instruments and a \$125,000 (14.1%) increase in sales of benchtop laboratory equipment. Sales of the catalyst research instruments are comprised of a small number of large orders, typically averaging over \$100,000 each, while benchtop laboratory equipment sales consist of a large number of small orders usually from stock.

The gross profit for the three months ended September 30, 2009 increased by \$200,700 to \$535,800 (43.1%) compared to \$335,100 (34.5%) for the three months ended September 30, 2008, as a result of increased sales for both business segments, which allowed for more absorption of overhead costs, and lower material costs for the Benchtop Laboratory Equipment Operations.

General and administrative expenses for the three months ended September 30, 2009 decreased slightly by \$16,000 (6.5%) to \$229,600 from \$245,600 for the comparable period of the prior year, mainly due to a reduction in such expenses incurred by the Catalyst Research Instruments Operations.

Selling expenses for the three months ended September 30, 2009 increased by \$28,000 (24.5%) to \$142,200 from \$114,200 for the three months ended September 30, 2008, due mainly to the compensation for a new sales manager hired by the Benchtop Laboratory Equipment Operations in June 2009.

Research and development expenses for the three months ended September 30, 2009 were \$108,500, an increase of \$11,900 (12.3%) from \$96,600 for the three months ended September 30, 2008, due to expenses with respect to the development of a new product for bioprocessing for the Benchtop Laboratory Equipment Operations.

Interest and other income decreased for the comparative three month periods by \$7,100 (63.4%) from \$11,200 to \$4,100 mainly as a result of lower cash and investment balances and lower yields.

The Company reflected income tax expense for the three months ended September 30, 2009 of \$16,100 on income before income taxes of \$59,600 compared to an income tax benefit of \$32,000 on a loss before income tax benefit of \$110,100 for the three months ended September 30, 2008.

As a result of the foregoing, the net income for the three months ended September 30, 2009 was \$43,500 compared to a net loss of \$78,100 for the three months ended September 30, 2008.

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. |

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(b) Reports on Form 8-K:

On August 7, 2009 Registrant filed a Report on Form 8-K, reporting under Item 1.01.

On September 18, 2009 Registrant filed a Report on Form 8-K, reporting under Item 8.01.

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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: November 16, 2009

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