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SCIENTIFIC INDUSTRIES INC
Form 10-Q
May 14, 2010

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 March 31, 2010

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 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

(Do not check if a smaller reporting company)

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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 April 30, 2010 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

| | |
|-----------|----------|
| March 31, | June 30, |
| 2010 | 2009 |

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| | | |
|---|-------------|-------------|
| Current Assets: | (Unaudited) | |
| Cash and cash equivalents | \$ 634,900 | \$ 738,400 |
| Investment securities | 660,200 | 605,500 |
| Trade accounts receivable, net | 522,900 | 806,700 |
| Inventories | 2,120,500 | 1,598,000 |
| Prepaid expenses and other current assets | 69,500 | 91,600 |
| Deferred taxes | 70,400 | 63,400 |
| Total current assets | 4,078,400 | 3,903,600 |
| Property and equipment at cost, net | 206,300 | 241,200 |
| Intangible assets, net | 241,600 | 330,900 |
| Goodwill | 316,800 | 265,400 |
| Other assets | 25,700 | 25,700 |
| Deferred taxes | 91,800 | 64,200 |
| Total assets | \$4,960,600 | \$4,831,000 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 140,400 | \$ 137,400 |
| Customer advances | 495,800 | 359,600 |
| Accrued expenses and taxes | 227,000 | 423,500 |
| Total current liabilities | 863,200 | 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 March 31, 2010 and June 30, 2009 | 60,800 | 60,600 |
| Additional paid-in capital | 1,529,300 | 1,514,300 |
| Accumulated other comprehensive loss | (32,100) | (79,600) |
| Retained earnings | 2,591,800 | 2,467,600 |
| | 4,149,800 | 3,962,900 |
| Less common stock held in treasury, at cost, 19,802 shares | 52,400 | 52,400 |
| Total shareholders' equity | 4,097,400 | 3,910,500 |
| Total liabilities and shareholders' equity | \$4,960,600 | \$4,831,000 |
| | ===== | ===== |

See notes to unaudited condensed consolidated financial statements

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

| | For the Three Month Periods Ended March 31, | | For the Nine Month Periods Ended March 31, | |
|---|---|------------------|--|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$1,137,600 | \$1,423,700 | \$4,209,100 | \$4,151,000 |
| Cost of goods sold | 659,600 | 866,400 | 2,423,300 | 2,642,900 |
| Gross profit | <u>478,000</u> | <u>557,300</u> | <u>1,785,800</u> | <u>1,508,100</u> |
| Operating Expenses: | | | | |
| General & administrative | 275,100 | 272,000 | 847,300 | 767,100 |
| Selling | 141,800 | 114,400 | 418,400 | 314,400 |
| Research & development | 82,300 | 103,500 | 271,500 | 317,700 |
| | <u>499,200</u> | <u>489,900</u> | <u>1,537,200</u> | <u>1,399,200</u> |
| Income (loss) from operations | (21,200) | 67,400 | 248,600 | 108,900 |
| Interest & other income, net | 10,300 | 4,700 | 24,200 | 22,600 |
| Income (loss) before income taxes | <u>(10,900)</u> | <u>72,100</u> | <u>272,800</u> | <u>131,500</u> |
| Income tax expense (benefit): | | | | |
| Current | 10,500 | 28,100 | 107,800 | 64,500 |
| Deferred | (14,600) | (13,000) | (31,000) | (31,700) |
| | <u>(4,100)</u> | <u>15,100</u> | <u>76,800</u> | <u>32,800</u> |
| Net income (loss) | <u>(\$ 6,800)</u> | <u>\$ 57,000</u> | <u>\$ 196,000</u> | <u>\$ 98,700</u> |
| Basic earnings (loss) Per common share | (\$.01) | \$.05 | \$.16 | \$.08 |
| Diluted earnings (loss) Per common share | (\$.01) | \$.05 | \$.16 | \$.08 |
| 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 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Nine Month Periods Ended | |
|---|----------------------------------|---------------------|
| | March 31, 2010 | March 31, 2009 |
| Operating activities: | | |
| Net income | \$ 196,000 | \$ 98,700 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 149,900 | 155,000 |
| Deferred income taxes | (31,000) | (31,700) |
| Stock-based compensation | 9,500 | 2,700 |
| Income tax benefit of stock options exercised | 400 | 2,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 283,800 | (194,900) |
| Inventories | (522,500) | (304,100) |
| Prepaid expenses and other current assets | 22,100 | 5,900 |
| Accounts payable | 3,000 | (20,700) |
| Customer advances | 136,300 | (201,500) |
| Accrued expenses and taxes | (140,800) | (36,600) |
| Total adjustments | (89,300) | (623,900) |
| Net cash provided by (used in) operating activities | 106,700 | (525,200) |
| Investing activities: | | |
| Additional consideration for Altamira Instruments, Inc. acquisition | (107,000) | (144,900) |
| Purchase of investment securities, available-for-sale | (11,000) | (13,600) |
| Redemptions of investment securities, available-for-sale | - | 50,000 |
| Capital expenditures | (22,400) | (32,300) |
| Purchase of intangible assets | (3,300) | (8,200) |
| Net cash used in investing activities | (143,700) | (149,000) |
| Financing activities: | | |
| Proceeds from exercise of stock options | 5,300 | 3,300 |
| Proceeds from line of credit, bank | - | 50,000 |
| Cash dividends declared and paid | (71,800) | (94,500) |
| Net cash used in financing activities | (66,500) | (41,200) |
| Net decrease in cash and cash equivalents | (103,500) | (715,400) |
| Cash and cash equivalents, beginning of year | 738,400 | 1,065,500 |
| Cash and cash equivalents, end of period | \$ 634,900 ===== | \$ 350,100 ===== |

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Supplemental disclosures:

Cash paid during the period for:

| | | |
|--------------|------------|------------|
| Income Taxes | \$ 263,300 | \$ 125,000 |
|--------------|------------|------------|

See notes to condensed consolidated financial statements (unaudited)

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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 and nine months ended March 31, 2010, 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 February 2010, the Financial Accounting Standard Board ("FASB") issued guidance which removed the requirement to disclose the date through which subsequent events have been evaluated in both issued and revised financial statements for companies that file financial statements with the Securities and Exchange Commission ("SEC"). This new guidance was effective immediately. The Company evaluates subsequent events through the date that the Company's financial statements are filed with the SEC.

In April 2009, the FASB issued 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

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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

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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 July 2009 had no impact on the Company's consolidated financial statements and only required additional financial statement disclosures (see Note 5).

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 and Level 2 (see Note 5) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuances, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. Adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

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 at the closing \$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,

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

As of March 31, 2010, the total adjusted aggregate purchase price, including the additional payments of \$369,500 which have been paid or accrued, since the acquisition was allocated to assets acquired and liabilities assumed as follows:

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| | |
|-------------------------|-----------------------------|
| Current assets | \$ 734,000 |
| Property and equipment | 140,300 |
| Non-current assets | 25,100 |
| Goodwill | 316,800 |
| Other intangible assets | 639,000* |
| Current liabilities | (561,900) |
| Adjusted purchase price | <u>\$1,293,300</u> ===== |

*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:

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| | Benchtop Laboratory Equipment | Catalyst Research Instruments | Corporate and Other | Consolidated |
|------------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------|
| Three months ended March 31, 2010: | | | | |
| Net Sales | \$1,011,900 | \$ 125,700 | \$ - | \$1,137,600 |
| Foreign Sales | 585,600 | 27,900 | - | 613,500 |
| Profit (Loss) | 123,400 | (144,600) | 10,300 | (10,900) |
| Assets | 2,279,900 | 1,858,300 | 822,400 | 4,960,600 |
| Long-Lived Asset Expenditures | 11,400 | - | - | 11,400 |
| Depreciation and Amortization | 14,100 | 33,400 | - | 47,500 |

| | Benchtop Laboratory Equipment | Catalyst Research Instruments | Corporate and Other | Consolidated |
|------------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------|
| Three months ended March 31, 2009: | | | | |
| Net Sales | \$ 928,000 | \$ 495,700 | \$ - | \$1,423,700 |
| Foreign Sales | 547,400 | 162,500 | - | 709,900 |
| Profit (Loss) | 93,800 | (26,400) | 4,700 | 72,100 |
| Assets | 2,200,200 | 1,337,400 | 925,700 | 4,463,300 |
| Long-Lived Asset Expenditures | 8,000 | - | - | 8,000 |
| Depreciation and Amortization | 14,500 | 35,600 | - | 50,100 |

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Approximately 64% and 67% of net sales of benchtop laboratory equipment for the three month periods ended March 31, 2010 and 2009, 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 the three month periods ended March 31, 2010 and 2009 for approximately 32% and 26% of the segment's net sales, respectively, (29% and 23% of total net sales, respectively.) Accounts receivable from these two customers accounted for approximately 29% of total accounts receivable at March 31, 2010 and 16% at June 30, 2009, respectively.

Sales of catalyst research instruments are generally pursuant to large orders averaging more than \$100,000 per order to a limited numbers of customers. Sales for the three month period ended March 31, 2010 to one customer accounted for 47% of the segment's net sales (5% of total net sales and 11% of total accounts receivable at March 31, 2010.) Sales to three customers, combined accounted for 96% of that segment's net sales (33% of total net sales) for the three month period ended March 31, 2009 and none of the accounts receivable at June 30, 2009.)

| Benchtop Laboratory Equipment | Catalyst Research Instruments | Corporate and Other | Consolidated |
|-------------------------------------|-------------------------------------|---------------------------|--------------|
|-------------------------------------|-------------------------------------|---------------------------|--------------|

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Nine months ended March 31, 2010:

| | | | | |
|------------------|-------------|-------------|---------|-------------|
| Net Sales | \$3,180,200 | \$1,028,900 | \$ - | \$4,209,100 |
| Foreign Sales | 1,776,900 | 119,400 | - | 1,896,300 |
| Profit (Loss) | 433,700 | (185,100) | 24,200 | 272,800 |
| Assets | 2,279,900 | 1,858,300 | 822,400 | 4,960,600 |
| Long-Lived Asset | | | | |
| Expenditures | 22,400 | - | - | 22,400 |
| Depreciation and | | | | |
| Amortization | 45,500 | 104,400 | - | 149,900 |

| | Benchtop Laboratory Equipment | Catalyst Research Instruments | Corporate and Other | Consolidated |
|-----------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------|
| Nine months ended March 31, 2009: | | | | |
| Net Sales | \$2,830,400 | \$1,320,600 | \$ - | \$4,151,000 |
| Foreign Sales | 1,673,000 | 254,000 | - | 1,927,000 |
| Profit (Loss) | 293,600 | (184,700) | 22,600 | 131,500 |
| Assets | 2,200,200 | 1,337,400 | 925,700 | 4,463,300 |
| Long-Lived Asset | | | | |
| Expenditures | 12,500 | 19,800 | - | 32,300 |
| Depreciation and | | | | |
| Amortization | 43,900 | 111,100 | - | 155,000 |

Approximately 68% of net sales of benchtop laboratory equipment for each of the nine month periods ended March 31, 2010 and 2009, 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% and 29% of the segment's net sales for the nine month periods ended March 31, 2010 and 2009, respectively, (23% and 20% of total net sales for the 2010 and 2009 periods, respectively).

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Sales of catalyst research instruments to three different customers, accounted for approximately 65% of that segment's net sales (16% of total net sales) for the nine months ended March 31, 2010. Sales to three other customers accounted for 27% of the segment's net sales (12% of total net sales) for the nine month period ended March 31, 2009.

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

More than a majority of the net sales of the Benchtop Laboratory Equipment Operations' are foreign sales. While changes in political and economic conditions in countries in which the customers are located could have a negative impact on the Company's sales and results, the Company does not believe it is a material risk, particularly since the sales are effected in United States Dollars through distributors.

5. Fair Value of Financial Instruments:

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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 concerning 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:

- 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.

- Level 3 Prices or valuations 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 March 31, 2010 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 March 31, 2010 | Level 1 | Level 2 | Level 3 |
|-------------------------------|---------------------------------|--------------------|-------------|-------------|
| Cash and cash equivalents | \$ 634,900 | \$ 634,900 | \$ - | \$ - |
| Available for sale securities | 660,200 | 660,200 | - | - |
| Total | \$1,295,100 | \$1,295,100 | \$ - | \$ - |

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Fair Value Measurements Using Inputs Considered as

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

Investments in marketable securities classified as available-for-sale by

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security type at March 31, 2010 and June 30, 2009 consisted of the following:

| | Cost | Fair Value | Unrealized Holding Gain (Loss) |
|---------------------|------------|------------|--------------------------------|
| At March 31, 2010: | | | |
| Available for sale: | | | |
| Equity securities | \$ 7,800 | \$ 10,600 | \$ 2,800 |
| Mutual funds | 684,500 | 649,600 | (34,900) |
| | \$ 692,300 | \$ 660,200 | \$ (32,100) |
| | \$ 692,300 | \$ 660,200 | \$ (32,100) |
| | | | |
| | 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) |
| | \$ 685,100 | \$ 605,500 | \$ (79,600) |

6. Inventories:

Inventories are based on perpetual inventory records at the end of the applicable periods. Components of inventory are as follows:

| | March 31, 2010 | June 30, 2009 |
|-----------------|-------------------|------------------|
| Raw Materials | \$1,000,700 | \$ 1,068,500 |
| Work in process | 968,600 | 321,000 |
| Finished Goods | 151,200 | 208,500 |
| | \$2,120,500 | \$ 1,598,000 |
| | \$2,120,500 | \$ 1,598,000 |

7. 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.

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

| For the Three Month Periods Ended March 31, | For the Nine Month Periods Ended March 31, |
|---|--|
| | |

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| | 2010 | 2009 | 2010 | 2009 |
|---|-------------------|------------------|-------------------|------------------|
| Net income (loss) | <u>(\$ 6,800)</u> | <u>\$ 57,000</u> | <u>\$ 196,000</u> | <u>\$ 98,700</u> |
| Weighted average common shares outstanding | 1,196,577 | 1,184,730 | 1,195,876 | 1,182,461 |
| Effect of dilutive securities | - | 22,182 | 15,738 | 29,071 |
| Weighted average dilutive common shares outstanding | <u>1,196,577</u> | <u>1,206,912</u> | <u>1,211,614</u> | <u>1,211,532</u> |
| Basic earnings (loss) per common share | <u>(\$.01)</u> | <u>\$.05</u> | <u>\$.16</u> | <u>\$.08</u> |
| Diluted earnings (loss) per common share | <u>(\$.01)</u> | <u>\$.05</u> | <u>\$.16</u> | <u>\$.08</u> |

Approximately 53,000 and 6,500, respectively, 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 months ended March 31, 2010 and 2009, because the effect would be anti-dilutive. Approximately 23,000 and 6,500 shares, respectively, 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 nine months ended March 31, 2010 and 2009, because the effect would be anti-dilutive.

8. Comprehensive Income (Loss):

The FASB established standards for disclosure of comprehensive income or loss, which includes net income or loss and any changes in equity from non-owner sources that are not recorded in the income statement (such as changes in 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:

| | For the Three Month Periods Ended March 31, | | For the Nine Month Periods Ended March 31, | |
|--|---|------------------|--|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net Income (Loss) | <u>(\$ 6,800)</u> | <u>\$ 57,000</u> | <u>\$196,000</u> | <u>\$ 98,700</u> |
| Other comprehensive income(loss): | | | | |
| Unrealized holding gain (loss) arising during period, net of tax | 6,900 | (400) | 47,500 | (48,800) |
| Comprehensive income | <u>\$ 100</u> | <u>\$ 56,600</u> | <u>\$243,500</u> | <u>\$ 49,900</u> |

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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 \$316,800 and \$265,400 at March 31, 2010 and June 30, 2009, respectively, all of which is deductible for tax purposes. The related agreement provides for contingent 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. The additional consideration amounted to \$51,400 and \$66,000 for the nine month periods ended March 31, 2010, and 2009, respectively.

The components of other intangible assets are as follows:

| | Useful Lives | Cost | Accumulated Amortization | Net |
|-------------------------|-----------------|-----------|-----------------------------|-----------|
| | | | | |
| At March 31, 2010: | | | | |
| Technology | 5 yrs. | \$300,000 | \$200,000 | \$100,000 |
| Customer relationships | 10 yrs. | 237,000 | 151,100 | 85,900 |
| Non-compete agreement | 5 yrs. | 102,000 | 68,000 | 34,000 |
| Other intangible assets | 5 yrs. | 127,700 | 106,000 | 21,700 |
| | | \$766,700 | \$525,100 | \$241,600 |
| | | | | |
| | 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 \$29,000 and \$31,800 for the three months ended March 31, 2010 and 2009, respectively and \$92,600 and \$100,800 for the nine months ended March 31, 2010 and 2009, respectively. As of March 31, 2010, estimated future amortization expense related to intangible assets is \$28,800 for the remaining three months 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 \$28,400 thereafter.

10. Note Payable

On January 20, 2010, the Company and Capital One Bank, N.A. ("Bank") agreed to extend through January 3, 2011 in the form of a restatement, the Company's existing promissory note, which provides for maximum

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borrowings of up to \$500,000. Advances requested by the Company are at the discretion of the Bank. Interest is charged at the Bank's prime rate, which was 3.25% as of March 31, 2010. The Company had no borrowings outstanding as of March 31, 2010 and June 30, 2009.

The borrowings are collateralized by the Company's assets to the extent of amounts borrowed and outstanding and all outstanding amounts are due and payable on January 3, 2011.

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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 \$103,500 to \$634,900 as of March 31, 2010 from \$738,400 as of June 30, 2009.

Net cash provided by operating activities was \$106,700 for the nine month period ended March 31, 2010 as compared to net cash used in operating activities of \$525,200 for the nine month period ended March 31, 2009, due mainly to the income for the current fiscal year period, lower accounts receivable balances and an increase in advances from customers of Altamira with respect to their orders. Cash used in investing activities was \$143,700 for the nine month period ended March 31, 2010 compared to \$149,000 for the nine month period ended March 31, 2009, primarily the result of the smaller amount of additional contingent consideration paid post-closing for the acquisition of Altamira.

On September 17, 2009, the Board of Directors of the Company declared a cash dividend of \$.06 per share of Common Stock which was paid on December 21, 2009 to holders of record as of the close of business on October 23, 2009. Net cash used in financing activities for the nine month period ended March 31, 2010 was

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\$66,500 compared to \$41,200 used for the nine month period ended March 31, 2009, primarily due to the \$50,000 advance under the line of credit made in the earlier period.

The Company's working capital increased by \$232,100 to \$3,215,200 as of March 31, 2010 from working capital of \$2,983,100 at June 30, 2009 mainly the result of the income for the nine months ended March 31, 2010. Pursuant to a promissory note with Capital One Bank, N.A. which was restated in January 2010 and extended from November 1, 2009 to January 3, 2011, at the request of the Company, the Bank at its sole discretion may extend to the Company advances not to exceed an aggregate of \$500,000. The advances are to be secured by the Company's assets and bear interest at the Bank's prime rate. Management believes that the Company will be able to meet its cash flow needs for the next 12 months from its available financial resources including the restated promissory note and investment securities.

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Results of Operations

Financial Overview

The Company recorded a pretax loss of \$10,900 for the three month period ended March 31, 2010 compared to pretax income of \$72,100 for the three month period ended March 31, 2009 principally due to a loss incurred by the Catalyst Research Instruments segment of \$144,600 compared to a \$26,400 loss for the same three month period last year; the greater loss caused by a reduction in net sales and gross margins for the segment. For the comparative three month periods, the segment profit of the Benchtop Laboratory Equipment operations increased to \$123,400 from \$93,800 last year due to higher sales and increased gross margins.

For the comparative nine month periods, the Benchtop Laboratory Equipment Operations profit increased by \$140,100 to \$433,700 from \$293,600, the result of higher sales and gross margins while the Catalyst Research Instruments Operations recorded a loss of \$185,100 for the nine month period ended March 31, 2010 compared to a loss of \$184,700 for the nine month period ended March 31, 2009. As of March 31, 2010, the Catalyst Research Instrument Operations had an order backlog of \$1,600,000. A majority of the March 31, 2010 backlog is expected to be filled by the end of the current fiscal year, including a \$555,000 order, which because of customer-related delays and unbillable changes will result in lower overall gross margins for the segment and the Company. This backlog has also resulted in an increase in work-in-process inventory at March 31, 2010 compared to June 30, 2009.

Three Months Ended March 31, 2010 Compared With the Three Months Ended March 31, 2009

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Net sales for the three months ended March 31, 2010 decreased by \$286,100 (20.1%) to \$1,137,600 compared to \$1,423,700 for the three months ended March 31, 2009 as a result of a \$370,000 decrease in sales of catalyst research instruments, partially offset by an \$83,900 increase in sales of benchtop laboratory equipment. Sales of benchtop laboratory equipment products generally are comprised of small purchase orders from distributors, while sales of the catalyst research instruments are comprised of a small number of large orders, typically averaging over \$100,000 each; subjecting the segment's revenues to material fluctuations.

The gross profit percentage for the three months ended March 31, 2010 increased to 42.0% compared to 39.1% for the three months ended March 31, 2009, due primarily to lower material costs and the benefit of having fixed overhead spread over the increased sales of the Benchtop Laboratory Equipment Operations for the current fiscal year period.

General and administrative ("G&A") were substantially the same (a \$3,100 increase) for the three month comparative periods.

Selling expenses for the three months ended March 31, 2010 increased by \$27,400 (24.0%) to \$141,800 compared to \$114,400 for the three months ended March 31, 2009, due primarily to the addition in June, 2009 of a Sales Manager for the Benchtop Laboratory Equipment Operations.

Research and development expenses for the three months ended March 31, 2010 decreased by \$21,200 (20.5%) to \$82,300 compared to \$103,500 for the three months ended March 31, 2009, primarily the result of reduced new product development activity by the Catalyst Research Instruments operations.

Interest and other income for the three months ended March 31, 2010 increased by \$5,600 to \$10,300 from \$4,700 for the three months ended March 31, 2009 primarily due to the rental income from a new subtenant at the Company's New York facility.

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The loss for the three months ended March 31, 2010 resulted in a tax benefit of \$4,100 as compared to \$15,100 income tax expense for the three months ended March 31, 2009.

As a result of the foregoing, the Company recorded a net loss for the three months ended March 31, 2010 of \$6,800 compared to net income of \$57,000 for the three months ended March 31, 2009.

Nine Months Ended March 31, 2010 Compared With the Nine Months Ended March 31, 2009

Net sales for the nine months ended March 31, 2010 increased by \$58,100 (1.4%) to \$4,209,100 compared to \$4,151,000 for the nine months ended March 31, 2009, as a result of the \$349,800 increase in benchtop laboratory equipment net sales, partially offset by a decrease of \$291,700 in catalyst research instruments net sales.

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Sales of benchtop laboratory equipment products generally are comprised of small purchase orders from distributors, while sales of catalyst research instruments are comprised of a small number of large orders, typically averaging over \$100,000 each; subjecting the segment's revenues to material fluctuations.

The gross profit percentage for the nine months ended March 31, 2010 increased to 42.4% compared to 36.3% for the nine months ended March 31, 2009, due primarily to lower material costs and the benefit of having fixed overhead spread over the increased sales of the Benchtop Laboratory Equipment Operations for the current fiscal year period.

G&A expenses increased by \$80,200 (10.5%) to \$847,300 for the nine months ended March 31, 2010 from \$767,100 for the comparable period of the prior fiscal year, primarily as a result of higher salaries and slight increases in the other expenses.

Selling expenses for the nine months ended March 31, 2010 increased by \$104,000 (33.1%) to \$418,400 compared to \$314,400 for the nine months ended March 31, 2009, due primarily to the addition in June, 2009 of a Sales Manager for the Benchtop Laboratory Equipment Operations.

Research and development expenses for the nine months ended March 31, 2010 decreased by \$46,200 (14.5%) to \$271,500 as compared to \$317,700 for the nine months ended March 31, 2009, primarily the result of reduced new product development activity by the Catalyst Research Instruments Operations.

Interest and other income for the nine months ended March 31, 2010 increased by \$1,600 to \$24,200 from \$22,600 for the nine months ended March 31, 2009, primarily due to the rental income derived from a new subtenant at the Company's New York facility, and the interest earned on cash advances from the Catalyst Research Instruments Operations customers.

The higher income for the nine months ended March 31, 2010 resulted in an increase in income tax expense to \$76,800 for the nine months ended March 31, 2010 as compared to \$32,800 for the nine months ended March 31, 2009.

As a result of the foregoing, net income for the nine months ended March 31, 2010 increased by \$97,300 (98.6%) to \$196,000 as compared with \$98,700 for the nine months ended March 31, 2009.

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

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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 recently completed 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 January 20, 2010 Registrant filed a Report on Form 8-K, reporting under Item 1.01.

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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

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President, Chief Executive Officer
and Treasurer
Principal Executive, Financial and
Accounting Officer

Date: May 14, 2010