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SCIENTIFIC INDUSTRIES INC
Form 10-Q
October 27, 2011

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, 2011

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 reporting company)

Indicate by check mark whether the registrant is a shell company

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(as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

The number of shares outstanding of the issuer's common stock par value, \$0.05 per share, as of October 14, 2011 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, <u>2011</u> | June 30, <u>2011</u> |
|-----------------|------------------------------|-------------------------|
| Current Assets: | (Unaudited) | |

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| | | |
|---|--------------------|--------------------|
| Cash and cash equivalents | \$ 783,100 | \$ 907,800 |
| Investment securities | 695,400 | 693,400 |
| Trade accounts receivable, net | 852,600 | 620,000 |
| Inventories | 1,592,600 | 1,639,800 |
| Prepaid expenses and other current assets | 148,900 | 197,700 |
| Deferred taxes | 77,700 | 77,700 |
| | <u>4,150,300</u> | <u>4,136,400</u> |
| Property and equipment, net | 211,200 | 175,100 |
| Intangible assets, net | 85,300 | 112,300 |
| Goodwill | 447,900 | 447,900 |
| Other assets | 25,700 | 25,700 |
| Deferred taxes | 112,400 | 115,800 |
| | <u>\$5,032,800</u> | <u>\$5,013,200</u> |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 106,800 | \$ 128,100 |
| Accrued expenses and taxes | 266,100 | 284,300 |
| Dividends payable | 59,800 | - |
| | <u>432,700</u> | <u>412,400</u> |
| Shareholders' Equity: | | |
| Common stock, \$.05 par value; authorized 7,000,000 shares; 1,216,379 issued and outstanding | 60,800 | 60,800 |
| Additional paid-in capital | 1,559,100 | 1,558,500 |
| Accumulated other comprehensive loss | (22,400) | (21,500) |
| Retained earnings | 3,055,000 | 3,055,400 |
| | <u>4,652,500</u> | <u>4,653,200</u> |
| Less common stock held in treasury, at cost 19,802 shares | 52,400 | 52,400 |
| | <u>4,600,100</u> | <u>4,600,800</u> |
| | <u>\$5,032,800</u> | <u>\$5,013,200</u> |
| | ===== | ===== |

See notes to unaudited condensed consolidated financial statements

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| | For the Three Month Periods Ended September 30, | |
|---|---|-------------|
| | 2011 | 2010 |
| Net sales | \$1,541,000 | \$1,255,500 |
| Cost of goods sold | 937,000 | 746,800 |
| Gross profit | 604,000 | 508,700 |
| Operating Expenses: | | |
| General & administrative | 290,900 | 286,800 |
| Selling | 189,000 | 140,400 |
| Research & development | 46,900 | 87,500 |
| Total operating expenses | 526,800 | 514,700 |
| Income (loss) from operations | 77,200 | (6,000) |
| Interest & other income, net | 6,800 | 9,200 |
| Income before income taxes | 84,000 | 3,200 |
| Income tax expense (benefit): | | |
| Current | 21,200 | 6,600 |
| Deferred | 3,400 | (5,600) |
| | 24,600 | 1,000 |
| Net income | \$ 59,400 | \$ 2,200 |
| | ===== | ===== |
| Basic earnings per common share | \$.05 | \$ - |
| Diluted earnings per common share | \$.05 | \$ - |
| Cash dividends declared per common share | \$.05 | \$.09 |

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, 2011 Sept. 30, 2010

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| | | |
|---|------------|------------|
| Operating activities: | | |
| Net income | \$ 59,400 | \$ 2,200 |
| | | |
| Adjustments to reconcile net income | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 47,100 | 47,400 |
| Deferred income taxes | 3,400 | (5,600) |
| Stock-based compensation | 600 | 3,100 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (232,600) | 729,800 |
| Inventories | 47,200 | (294,700) |
| Prepaid expenses and other | | |
| current assets | 48,800 | (22,000) |
| Accounts payable | (21,300) | (157,200) |
| Customer advances | - | 128,500 |
| Accrued expenses and taxes | (18,200) | (72,500) |
| | | |
| Total adjustments | (125,000) | 356,800 |
| | | |
| Net cash provided by (used in) | | |
| operating activities | (65,600) | 359,000 |
| | | |
| Investing activities: | | |
| Additional consideration for acquisition | | |
| of Altamira Instruments, Inc. | - | (139,900) |
| Purchase of investment securities, | | |
| available-for-sale | (2,900) | (3,400) |
| Capital expenditures | (54,900) | (5,200) |
| Purchases of intangible assets | (1,300) | (3,300) |
| | | |
| Net cash used in | | |
| investing activities | (59,100) | (151,800) |
| | | |
| Net increase (decrease) in cash and | | |
| cash equivalents | (124,700) | 207,200 |
| Cash and cash equivalents, | | |
| beginning of period | 907,800 | 632,700 |
| | | |
| Cash and cash equivalents, end of period | \$ 783,100 | \$ 839,900 |
| | | |
| Supplemental disclosures: | | |
| Cash paid during the period for: | | |
| Income Taxes | \$ 1,500 | \$ 94,000 |

See notes to unaudited condensed consolidated financial statements

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

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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, 2011. The results for the three months ended September 30, 2011, are not necessarily an indication of the results for the full fiscal year ending June 30, 2012.

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. New Accounting Pronouncements:

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income," ("ASU No. 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company has not adopted this standard yet and does not expect that the adoption of ASU 2011-05 will have an impact on its consolidated results of operations, financial condition or cash flows as it only requires a change in the format of our current presentation.

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In December 2010, the FASB issued ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This standard requires an entity to disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. ASU No. 2010-29 is effective prospectively for business combinations that occur on or after the beginning of the first annual reporting period beginning after December 15, 2010. The Company does not expect that the adoption of ASU No. 2010-29 will have an impact on its consolidated results of operations, financial condition or cash flows.

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3. 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, 2011: | | | | |
| Net Sales | \$1,075,200 | \$ 465,800 | \$ - | \$1,541,000 |
| Foreign Sales | 608,700 | 112,600 | - | 721,300 |
| Segment Profit (Loss) | 135,800 | (58,600) | - | 77,200 |
| Segment Assets | 2,621,100 | 1,078,300 | 1,333,400 | 5,032,800 |
| Long-Lived Asset Expenditures | 8,200 | 46,700 | - | 54,900 |
| Depreciation and Amortization | 11,800 | 35,300 | - | 47,100 |

| | Benchtop Laboratory Equipment | Catalyst Research Instruments | Corporate and Other | Consolidated |
|--|-------------------------------------|-------------------------------------|---------------------------|--------------|
| Three months ended September 30, 2010: | | | | |
| Net Sales | \$1,022,100 | \$ 233,400 | \$ - | \$1,255,500 |
| Foreign Sales | 520,200 | 26,000 | - | 546,200 |
| Segment Profit (Loss) | 125,000 | (131,000) | - | (6,000) |
| Segment Assets | 2,182,500 | 1,467,300 | 1,301,500 | 4,951,300 |
| Long-Lived Asset Expenditures | 3,400 | 1,800 | - | 5,200 |
| Depreciation and Amortization | 13,900 | 33,500 | - | 47,400 |

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Approximately 63% and 66% of net sales of benchtop laboratory equipment for the three month periods ended September 30, 2011 and 2010, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two customers accounted in the aggregate for approximately 20% of the net sales of the Benchtop Laboratory Equipment Operations and 14% of total sales for the three months ended September 30, 2011, and 27% of net sales of the segment and 22% of total sales for the three months ended

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September 30, 2010. Sales of catalyst research instruments generally comprise a few very large orders averaging \$100,000 per order to a limited number of customers, who differ from order to order. Sales to three customers represented approximately 91% of the Catalyst Research Instrument Operations' net sales and 28% of total sales for the three months ended September 30, 2011. Sales to two different customers represented 75% of the segment's net sales and 14% of total sales for the year earlier comparable period.

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

4. 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 described below:

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 valuation that require inputs that are both significant to the fair value measurement and unobservable.

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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, 2011 and June 30, 2011 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, 2011 | Level 1 | Level 2 | Level 3 |
|-------------------------------|--|--------------------|-------------|-------------|
| Cash and cash equivalents | \$ 783,100 | \$ 783,100 | \$ - | \$ - |
| Available for sale securities | 695,400 | 695,400 | - | - |
| Total | \$1,478,500 | \$1,478,500 | \$ - | \$ - |

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Fair Value Measurements Using Inputs Considered as

| | Fair Value at June 30, 2011 | Level 1 | Level 2 | Level 3 |
|-------------------------------|--------------------------------|-----------------|----------|----------|
| Cash and cash equivalents | \$ 907,800 | \$ 907,800 | \$ - | \$ - |
| Available for sale securities | 693,400 | 693,400 | - | - |
| Total | \$1,601,200 | \$1,601,200 | \$ - | \$ - |
| | ===== | ===== | ===== | ===== |

Investments in marketable securities classified as available-for-sale by security type at September 30, 2011 and June 30, 2011 consisted of the following:

| | Cost | Fair Value | Unrealized Holding Gain (Loss) |
|------------------------|----------------|---------------|--------------------------------------|
| At September 30, 2011: | | | |
| Available for sale: | | | |
| Equity securities | \$ 7,800 | \$ 13,000 | \$ 5,200 |
| Mutual funds | 710,000 | 682,400 | (27,600) |
| | \$ 717,800 | \$695,400 | \$ (22,400) |
| | ===== | ===== | ===== |

| | Cost | Fair Value | Unrealized Holding Gain (Loss) |
|---------------------|----------------|----------------|--------------------------------------|
| At June 30, 2011: | | | |
| Available for sale: | | | |
| Equity securities | \$ 7,800 | \$ 13,300 | \$ 5,500 |
| Mutual funds | 707,100 | 680,100 | (27,000) |
| | \$ 714,900 | \$ 693,400 | \$ (21,500) |
| | ===== | ===== | ===== |

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5. Inventories:

Inventories for financial statement purposes are based on perpetual inventory records at September 30, 2011 and June 30, 2011. Components of inventory are as follows:

| | September 30, 2011 | June 30, 2011 |
|-----------------|-----------------------|------------------|
| Raw Materials | \$1,114,800 | \$1,051,300 |
| Work in process | 279,000 | 408,200 |

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| | | |
|----------------|--------------------|--------------------|
| Finished Goods | 198,800 | 180,300 |
| | <u>\$1,592,600</u> | <u>\$1,639,800</u> |
| | ===== | ===== |

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.

Earnings per common share was computed as follows:

| | For the Three Month Periods Ended September 30, | |
|---|---|------------------|
| | 2011 | 2010 |
| Net income | \$ 59,400 | \$ 2,200 |
| | ===== | ===== |
| Weighted average common shares outstanding | 1,196,577 | 1,196,577 |
| Dilutive securities | 14,924 | 15,413 |
| | <u>1,211,501</u> | <u>1,211,990</u> |
| | ===== | ===== |
| Basic earnings per common share | \$.05 | \$ - |
| | ===== | ===== |
| Diluted earnings per common share | \$.05 | \$ - |
| | ===== | ===== |

Approximately 2,000 shares of the Company's Common Stock issuable upon the exercise of outstanding stock options were excluded from the calculation of diluted earnings per common share for the three months ended September 30, 2011, because the effect would be anti-dilutive.

7. Comprehensive Income:

The FASB establishes 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 the net unrealized gains or losses on securities.) The Company's only source of comprehensive income or loss other than net income is the net unrealized gain or loss on securities. The components of comprehensive income were as follows:

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| | 2011 | 2010 |
|------------------------------------|-----------|-----------|
| Net income | \$ 59,400 | \$ 2,200 |
| Other comprehensive income (loss): | | |
| Unrealized holding gain (loss) | | |
| arising during period | (900) | 10,400 |
| Comprehensive income | \$ 58,500 | \$ 12,600 |
| | ===== | ===== |

8. 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 \$447,900 as of September 30, 2011 and June 30, 2011, all of which was deductible for tax purposes. The agreement provided for contingent payments to the former shareholders based on net sales of the Catalyst Research Instrument Operations subject to certain limits, which were earned and paid.

The components of other intangible assets are as follows:

| | Useful Lives | Cost | Accumulated Amortization | Net |
|-------------------------|-----------------|-----------|-----------------------------|-----------|
| At September 30, 2011: | | | | |
| Technology | 5 yrs. | \$300,000 | \$290,000 | \$ 10,000 |
| Customer relationships | 10 yrs. | 237,000 | 183,200 | 53,800 |
| Non-compete agreement | 5 yrs. | 102,000 | 98,600 | 3,400 |
| Other intangible assets | 5 yrs. | 140,300 | 122,200 | 18,100 |
| | | \$779,300 | \$694,000 | \$ 85,300 |
| At June 30, 2011: | | | | |
| Technology | 5 yrs. | \$300,000 | \$275,000 | \$ 25,000 |
| Customer relationships | 10 yrs. | 237,000 | 177,200 | 59,800 |
| Non-compete agreement | 5 yrs. | 102,000 | 93,500 | 8,500 |
| Other intangible assets | 5 yrs. | 139,000 | 120,000 | 19,000 |
| | | \$778,000 | \$665,700 | \$112,300 |

Total amortization expense was \$28,300 and \$29,400 for the three months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, estimated future amortization expense related to intangible assets is \$32,500 for the remainder of the fiscal year ending June 30, 2012, \$15,800 for fiscal 2013, \$12,000 for fiscal 2014, \$8,400 for fiscal 2015, \$13,100

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for fiscal 2016, and \$3,500 thereafter.

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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 to customers? specifications catalyst research instruments, 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 \$124,700 to \$783,100 as of September 30, 2011 from \$907,800 as of June 30, 2011.

Net cash used in operating activities was \$65,600 for the three months ended September 30, 2011 as compared to cash provided of \$359,000 for the comparable three month period in 2010, due mainly to the higher accounts receivable balances originating in the current period compared to the prior period. Cash used in investing activities was \$59,100 for the three month period ended September 30, 2011 compared to \$151,800 for the three month period ended September 30, 2010 due primarily to the consideration paid in the prior year relating to the acquisition of Altamira Instruments, Inc.

On September 13, 2011, the Board of Directors of the Company declared a cash dividend of \$.05 per share of Common Stock payable on November 18, 2011 to holders of record as of the close of business on September 26, 2011.

The Company's working capital decreased slightly by \$6,400 to \$3,717,600 at September 30, 2011 from \$3,724,000 at June 30, 2011.

The Company has a line of credit with its bank, JPMorgan Chase Bank, N.A. which provides for maximum borrowings of up to \$700,000, to bear interest at 3.08 percentage points above the defined LIBOR Index. The interest rate as of September 30, 2011 was approximately 3.33% and is to be secured by a pledge of collateral consisting of the inventory, accounts, chattel paper, equipment and general intangibles of the Company. Outstanding amounts are due and payable by June 13, 2013 with a requirement that the Company is to reduce the outstanding principal balance to zero during the 30 day period ending on the anniversary date of the promissory note. As of September 30, 2011 and June 30, 2011, no

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borrowings under the line have been made.

Management believes that the Company will be able to meet its cash flow needs during the next 12 months, including payments anticipated to be made upon consummation of a previously reported proposed acquisition of assets, primarily a license and sublicenses related to the research, design and development, and sale of bioprocessing products and systems, from its available financial resources which include its cash and investment securities.

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Results of Operations

Financial Overview

The increase in the Company's income before income taxes of \$80,800 to \$84,000 for the three month period ended September 30, 2011 compared to \$3,200 for the three month period ended September 30, 2010 was principally due to a \$10,800 increase in segment profit of the Benchtop Laboratory Equipment Operations and a \$72,400 reduction to \$58,600 in the segment loss of the Catalyst Research Instrument Operations resulting from increased sales within that segment.

The Three Months Ended September 30, 2011 Compared With the Three Months Ended September 30, 2010

Net sales for the three months ended September 30, 2011 increased by \$285,500 (22.7%) to \$1,541,000 from \$1,255,500 for the three months ended September 30, 2010, substantially due to a \$232,400 increase in sales of catalyst research instruments. Sales of these products 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 shipped from stock. The backlog of orders for catalyst research instruments products was \$268,000 as of September 30, 2011, all of which are anticipated to be delivered by fiscal year end; the backlog as of September 30, 2010 was \$692,000.

The gross profit percentage for the three months ended September 30, 2011 decreased to 39.2% compared to 40.5% for the three months ended September 30, 2010, mainly as a result of higher material costs and product engineering costs incurred to improve certain benchtop laboratory products.

General and administrative expenses for the three months ended September 30, 2011 increased by \$4,100 (1.4%) to \$290,900 from \$286,800 for the comparable period of the prior year, mainly due to expenses incurred in the investigation of other business opportunities.

Selling expenses increased \$48,600 (34.6%) to \$189,000 for the three month period ended September 30, 2011 compared to \$140,400 for the prior year period, due to an increase in sales commissions paid to independent sales representatives, travel expenses incurred by the Catalyst Research Instruments Operations, costs related to the hiring of a new customer service representative and a sales consultant for the Benchtop Laboratory Equipment Operations.

Research and development expenses for the three months ended September

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30, 2011 decreased \$40,600 (46.4%) to \$46,900 from \$87,500 for the three months ended September 30, 2010, primarily the result of a reduction in new product development activity by the Company.

Interest and other income decreased for the comparative three month periods by \$2,400 (26.1%) to \$6,800 from \$9,200 mainly as a result of lower cash balances and lower interest rates.

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The Company reflected income tax expense for the three months ended September 30, 2011 of \$24,600 on income before income taxes of \$84,000 compared to \$1,000 on income before income taxes of \$3,200 for the three months ended September 30, 2010.

As a result of the foregoing, the net income for the three months ended September 30, 2011 was \$59,400 compared to \$2,200 for the three months ended September 30, 2010.

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 recently completed fiscal quarter that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

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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 |

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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:

Report dated August 9, 2011, related to the death of a member of the Board of Directors.

Reported dated September 14, 2011, related to cash dividend declaration.

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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: October 27, 2011

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