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SCIENTIFIC INDUSTRIES INC
Form 10-K
September 27, 2012

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

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2012

TRANSITION REPORT PURSUANT TO 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 in Its Charter)

Delaware

04-2217279

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

70 Orville Drive, Bohemia, New York

11716

(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, par value \$.05 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer,
as defined in Rule 405 of the Securities Act. Yes [] No [x]

Indicate by check mark if the registrant is not required to file reports
pursuant to Section 13 or Section 15(d) of the Act. Yes [] No [x]

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange
Act of 1934 during the preceding 12 months (or for such shorter period
that the registrant was required to file such reports), except for a
Report on Form 8-K required to be filed in November 2011 with respect
to an acquisition and (2) has been subject to such filing requirements
for the past 90 days. Yes [x] No []

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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)

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

The aggregate market value of the voting stock held by non-affiliates computed by reference to the average bid and asked prices of such stock, as of August 31, 2012 is \$1,172,300.

The number of shares outstanding of the registrant's common stock, par value \$.05 per share ("Common Stock") as of August 31, 2012 is 1,335,712 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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SCIENTIFIC INDUSTRIES, INC.

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Forward Looking Statements. The Company and its representatives may from time to time make written or oral forward-looking statements with respect to the Company's annual or long-term goals, including statements contained in its filings with the Securities and Exchange Commission and in its reports to stockholders.

The words or phrases "will likely result," "will be," "will," "are expected to," "will continue to," "is anticipated," "estimate," "project" or similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

PART I

Item 1. Business.

General. Incorporated in 1954, Scientific Industries, Inc., a Delaware corporation (which along with its subsidiaries, the "Company") is engaged in the design, manufacture, and marketing of standard benchtop laboratory equipment ("Benchtop Laboratory Equipment"), customized catalyst research instruments ("Catalyst Research Instruments"), under its wholly-owned subsidiary, Altamira Instruments, Inc., and since November 2011 through its then organized subsidiary, Scientific Bioprocessing, Inc., ("SBI"), the design of bioprocessing systems and products ("Bioprocessing Systems"). The Company's products are used primarily for research purposes by universities, pharmaceutical companies, national laboratories, medical device manufacturers, petrochemical companies and other industries performing laboratory-scale research.

Operating Segments. The Company views its operations as three segments: the manufacture and marketing of standard Benchtop Laboratory Equipment for research in university and industrial laboratories sold primarily through laboratory equipment distributors, the manufacture and marketing of custom-made Catalyst Research Instruments for universities, government laboratories, and chemical and petrochemical companies, and the production, marketing and sublicensing of bioprocessing systems and products for research in university and industrial laboratories. For certain financial information regarding the Company's operating segments, see Note 3 to the consolidated financial statements included under Item 8.

Products.

Benchtop Laboratory Equipment. The Company's Benchtop Laboratory Equipment products consist of mixers and shakers, rotators/rockers, refrigerated and shaking incubators, and magnetic

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stirrers. Sales of the Vortex-Genie(R) 2 Mixer, excluding accessories, the Company's principal product, represented approximately 42% and 52% of the Company's total net sales for the fiscal years ended June 30, 2012 ("fiscal 2012") and June 30, 2011 ("fiscal 2011"), respectively, and 63% and 68%, of the segment's sales for fiscal 2012 and fiscal 2011, respectively.

The vortex mixer is used to mix the contents of test tubes, beakers, and other various containers by placing such containers on a rotating cup or other attachments which cause the contents to be mixed at varying speeds.

The Company's additional mixers and shakers include a high speed touch mixer; a mixer with an integral timer, a patented cell disruptor; microplate mixers, two vortex mixers incorporating digital control and display; a large capacity multi-vessel vortex mixer and shaker, and a large capacity orbital shaker.

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The Company also offers various benchtop multi-purpose rotators and rockers, designed to rotate and rock a wide variety of containers, and a refrigerated incubator and an incubator shaker, both of which are multi-functional benchtop environmental chambers designed to perform various shaking and stirring functions under controlled environmental conditions.

Its line of magnetic stirrers include a patented high/low programmable magnetic stirrer; a four-place high/low programmable magnetic stirrer; a large volume magnetic stirrer available in analog and digital versions; and a four-place general purpose stirrer also available in analog and digital versions.

Catalyst Research Instruments. The Catalyst Research Instrument products are offered through the Company's subsidiary, Altamira. Its flagship product is the AMI-200(TM), which is used to perform traditional catalyst characterization experiments on an unattended basis. The product also features a stand-alone personal computer to control the instrument and incorporates proprietary LabVIEW(R)-based software. The Company's AMI-300(TM) Catalyst Characterization Instrument incorporates a sophisticated data handling package and is designed to perform dynamic temperature-programmed catalyst characterization experiments. All AMI model instruments are designed or adapted to a customer's individual requirements.

Its other Catalyst Research Instrument products include reactor systems, high throughput systems and micro-activity reactors, including the Company's BenchCAT(TM) custom reactor systems. They are available with single and multiple reactor paths and with reactor temperatures up to 1200 degrees Celsius. The systems feature multiple gas flows, are available in gas and gas/liquid configurations, and feature one or more stand-alone personal computers with the LabVIEW(R)-based control software. In June 2011, the Company introduced its MicroBenchCat Microreactor, a fully automated reactor system.

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Bioprocessing Systems. The Company, through SBI, is engaged in the design and development of bioprocessing systems, principally microreactor systems using disposable sensors for vessels with volumes ranging from 250 milliliter to five liters. Upon development systems will be offered for sale or pursuant to royalty agreements. As of August 31, 2012, SBI had sublicensing agreements with two sublicensees which provided gross licensing fees of \$160,600 for fiscal 2012, of which \$76,800 was paid to the University of Maryland, Baltimore County, ("UMBC") based on the terms of the related license. Sales of approximately \$17,400 comprised small bioprocessing items and accessories.

Product Development. The Company designs and develops substantially all of its products. Company personnel formulate plans and concepts for new products and improvements or modifications of existing products. The Company engages outside consultants to augment its capabilities in areas such as industrial and electronics design.

Major Customer. Sales, principally of the Vortex-Genie 2 Mixer, to one customer, which is one of the two major distributors of laboratory equipment, represented 7% of total sales for fiscal 2012, and 10.5% of Benchtop Laboratory Equipment product sales. For fiscal 2011, sales to the customer accounted for 11.2% of total sales and 14.6% of the segment's sales. Sales of Catalyst Research Instrument products are generally pursuant to a few large orders amounting on average to over \$100,000 to a limited number of customers. In fiscal 2012 no customer represented over 10% of total sales, however there were three customers that each represented over 10% of that segment's sales, or an aggregate of 44% of the segment's sales (14% of total sales). In fiscal 2011, sales to two customers, each of which represented at least 10% of that segment's sales, accounted for an aggregate of 30% of the segment's sales (7% of total sales).

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Marketing.

Benchtop Laboratory Equipment. The Company's Benchtop Laboratory Equipment products are generally distributed and marketed through an established network of domestic and overseas laboratory equipment distributors, who sell the Company's products through printed catalogs, websites and sales force. See "Major Customer". The Company also markets products through attendance at industry trade shows, trade publication advertising, brochures and catalogs, the Company's website, and commencing in fiscal 2010 through the efforts of its first sales managers.

In general, due to the reliance on sales through the catalog distribution system, it takes two to three years for

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a new benchtop laboratory equipment product to begin generating meaningful sales.

Catalyst Research Instruments. The Company's Catalyst Research Instruments are sold directly worldwide to universities, government laboratories, and chemical and petrochemical companies through its sales personnel and independent representatives engaged on a commission basis. Its marketing efforts include attendance at various trade shows, Altamira's website, outside sales representatives, and printed materials.

Bioprocessing Systems. The Company's Bioprocessing Systems products, which are currently under development, will be offered both directly and through distribution worldwide to university, industrial, and government laboratories. It is anticipated that the related marketing efforts will mainly comprise attendance at various trade shows, publications, website, and dealer-related activities.

Assembly and Production. The Company has an operating facility in Bohemia, New York from which its Benchtop Laboratory Equipment Operations are conducted and another in Pittsburgh, Pennsylvania from which its Catalyst Research Instruments Operations are conducted. The Company's production operations principally involve assembly of components supplied by various domestic and international independent suppliers. The Company has not commenced production of bioprocessing products, but anticipates that its current facilities will be adequate for such purpose.

Patents, Trademarks, and Licenses.

The Company holds several United States patents relating to its products, including a patent which expires in September 2015 for the TurboMix(TM), an accessory to the Vortex-Genie 2 Mixer, a patent which expires in July 2016 on the Roto-Shake Genie(R); a patent which expires in November 2022 on the MagStir Genie(R), MultiMagStir Genie(R), and Enviro-Genie(R), and a patent which expires in January 2023 on a biocompatible bag with integral sensors.

The Company has various proprietary marks, including AMI(TM), BenchCAT(TM), BioGenie(R), Cellphase(R), Cellstation(R), Disruptor Beads(TM), Disruptor Genie(R), Enviro-Genie(R), Genie(TM), Incubator Genie(TM), MagStir Genie(R), MegaMag Genie(R), MicroPlate Genie(R), MultiMagStir Genie(R), Multi-MicroPlate Genie(R), Orbital-Genie(R), QuadMag Genie(R), Rotator Genie(R), Roto-Shake Genie(R), TurboMix(TM), and Vortex-Genie(R), each of which it considers important to the success of the related product. The Company also has several trademark applications pending. No representation can be made that any application will be granted or as to the protection that any existing or future trademark may provide.

The Company has several licensing agreements for technology and patents used in the Company's business, including an exclusive license from UMBC with respect to rights and know-how under a patent held by UMBC related to non-disposable sensor technology, which the Company further sublicenses on an exclusive basis to a German company, except for non-exclusive rights held by the Company as it relates to the use of the

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technology with vessels of sizes ranging from 250 milliliters to 5 liters, and to applications in sub-milliliter volumes licensed to a third party. The Company also holds a license as to the technology related to its patent for the Roto-Shake

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Genie, and a patent related to its TurboMix attachment for the Vortex-Genie and Disruptor Genie. Total license fees paid by the Company under all its licenses for fiscal 2012 and fiscal 2011 amounted to \$87,300 and \$11,700, respectively.

Foreign Sales. The Company's sales to overseas customers, principally in Asia and Europe, accounted for approximately 54% of the Company's net sales for each of fiscal 2012 and fiscal 2011. Payments are in United States dollars and are therefore not subject to risks of currency fluctuation, foreign duties and customs.

Seasonality. The Company does not consider its business to be seasonal.

Backlog. The amount of backlog for Benchtop Laboratory Equipment products is not a significant factor because this line of products is comprised of standard catalog items requiring lead times which usually are not longer than two weeks. There is no backlog for Bioprocessing Systems. The backlog for Catalyst Research Instrument products as of June 30, 2012 was \$303,200, all of which is expected to be filled by June 30, 2013, as compared to a backlog of \$424,600 as of June 30, 2011, all of which was filled in fiscal 2012.

Competition. Most of the Company's competitors are substantially larger and have greater financial, production and marketing resources than the Company. Competition is generally based upon technical specifications, price, and product recognition and acceptance. The Company's main competition for its Benchtop Laboratory Equipment products derives from private label brand mixers offered by laboratory equipment distributors in the United States and Europe. The Company believes its vortex mixer products and trademarks are factors in the world-wide market.

The Company's major competitors for its Benchtop Laboratory Equipment are Henry Troemner, Inc. (a private label supplier to the two largest laboratory equipment distributors in the U.S. and Europe), IKA-Werke GmbH & Co. KG, a German company, Benchmark Scientific, Inc., (a United States importer of China-produced products), and Heidolph Instruments GmbH, a German company.

The primary competition for the Company's Catalyst Research Instrument products is in the form of instruments produced internally by research laboratory staffs of potential customers. Major competitors in the United States include Quantachrome Instruments, and Micromeritics Instrument

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Corporation, each a privately-held company.

The potential major competitors for the Company's Bioprocessing Systems are Applikon Biotechnology, B.V. (Netherlands), DASGIP Technology GmbH (Germany), and PreSens - Precision Sensing GmbH (Germany).

Research and Development. The Company incurred research and development expenses, the majority of which related to new Benchtop Laboratory Equipment products, of \$375,900 during fiscal 2012 compared to \$324,400 during fiscal 2011. The Company expects research and development expenditures in the fiscal year ending June 30, 2013 to increase primarily due to the new product development activities related to new bioprocessing systems.

Government and Environmental Regulation. The Company's products and claims with respect thereto have not required approval of the Food and Drug Administration or any other government approval. The Company's manufacturing operations, like those of the industry in general, are subject to numerous existing and proposed, if adopted, federal, state, and local regulations to protect the environment, establish occupational safety and health standards and cover other matters. The Company believes that its operations are in compliance with existing laws and regulations and the cost to comply is not significant to the Company.

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Employees. As of August 31, 2012, the Company employed 28 persons (18 for the Benchtop Laboratory Equipment Operations and 10 for the Catalyst Research Instruments Operations) of whom 24 were full-time, including its three executive officers. There were no employees for the Bioprocessing Systems Operations as all activities are being performed by employees of the other two operations. None of the Company's employees are represented by any union.

Available Information. The Company's Annual Report to Stockholders for fiscal 2012, includes its Annual Report on Form 10-K. The Annual Report will be mailed to security holders together with the Company's proxy material and solicitation as it relates to the Company's 2012 Annual Meeting of Stockholders. All the Company's reports, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other information filed with, or furnished to, the Securities and Exchange Commission (the "SEC" or the "Commission"), including amendments to such reports, are available on the SEC's website that contains such reports, proxy and information statements, and other information regarding companies that file electronically with the Commission. This information is available at www.sec.gov. In addition, all the Company's public filings can be accessed through the Company's website at <http://scientificindustries.com/secfilings.html>.

Item 1A. Risk Factors.

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In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, important risk factors are identified below that could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to such future periods in any current statements. The Company undertakes no obligation to publicly revise any forward-looking announcements to reflect future events or circumstances.

Dependence on Major Customers

Sales to one customer, a major laboratory equipment distributor in the United States, represented 10.5% and 14.6% of the segment's sales for fiscal 2012 and 2011, respectively. Sales to another customer, an overseas laboratory equipment distributor also accounted for 12.1% and 11.8% of the sales of Benchtop Laboratory Equipment for fiscal 2012 and 2011, respectively.

No representation can be made that the Company will be successful in continuing to retain either or both customers, the loss of which could have an adverse effect on future operating results of the Company.

One Benchtop Laboratory Equipment Product Accounts for a Substantial Portion of Revenues

The Company has a limited number of Benchtop Laboratory Equipment products with one product, the Vortex-Genie 2 Mixer, accounting for approximately 63% and 68% of Benchtop Laboratory Equipment sales, for fiscal 2012 and fiscal 2011 respectively, and 42% and 52% of total sales for fiscal 2012 and fiscal 2011, respectively.

The Company is a Small Participant in Each of the Industries in Which It Operates

The Benchtop Laboratory Equipment industry is a highly competitive mature industry. Although the Vortex-Genie 2 Mixer has been widely accepted, the annual sales of the Benchtop Laboratory Equipment products (\$4,160,500 for fiscal 2012 and \$4,525,100 for fiscal 2011) are significantly lower than the annual sales of many of its competitors in the industry. The principal competitors are substantially larger with much greater financial, production and marketing resources than the Company. There are constant new entrants into the vortex mixer market, including those offering products imported from China.

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The production and sale of Catalyst Research Instruments products is highly competitive. Altamira's competitors include several companies with greater resources and many laboratories which produce their own instruments.

The Company's Bioprocessing Systems operation is a participant in the fast-growing laboratory-scale sector of the larger bioprocessing products industry, which is dominated by several large companies

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with much greater resources than the Company.

The Company's Ability to Grow and Compete Effectively Depends In Part on Its Ability to Develop and Effectively Market New Products

Over the past ten years, the Company has continuously invested in the development and marketing of new Benchtop Laboratory Equipment products with a view to increasing revenues and reducing the Company's dependence on the Vortex-Genie 2 Mixer. Gross revenues derived from such other Benchtop Laboratory Equipment products (those other than the Vortex-Genie 2 Mixer) increased to \$1,545,400 for fiscal 2012 from \$1,484,000, for fiscal 2011. However, the segment's ability to compete will depend upon the Company's success in continuing to develop and market new laboratory equipment as to which no assurance can be given.

The Company relies primarily on distributors and their catalogs to market its Benchtop Laboratory Equipment products, as is customary in the industry. Accordingly, sales of new products are heavily dependent on the distributors' decision to include and retain a new product in the distributors' catalogs and on their websites. It may be at least 24 to 36 months between the completion of development of a product and the distribution of the catalog in which it is first offered; not all distributors feature the Company's products in their catalogs. In fiscal 2010, the Company hired a new sales manager to bolster its sales efforts in the United States, and in fiscal 2011, the Company engaged a consultant overseas as its European Sales Manager.

The Company's Catalyst Research Instruments line of products consists of only a few products. The ability of the Company to compete in this segment and expand the line will depend on its ability to make engineering improvements to existing products and develop and add new products incorporating more current technology. Over the last two fiscal years the Company has introduced two new catalyst research products to increase its product offerings and has continuously sought to expand its outside sales force.

The success of the Company's new Bioprocessing Systems operation will be heavily dependent on its ability to develop and market new products. New products are being or are to be developed under research and development agreements with the sellers of the SBI assets augmented by the Company's other internal and external resources. Such products are of a complex nature of which the Company does not have previous experience. They will be subject to beta testing by end users, which could result in design and/or production changes which could delay development time. The sale and marketing of the products, at least initially, will be through the Company's attendance at trade shows, website, and a few select distributors.

No assurance can be given that the amounts allocated by the Company for its new product development and sales and marketing programs will be sufficient to develop additional commercially feasible products which will be accepted by the marketplace, or that any distributor will include or retain any particular product in their catalogs and websites.

The Company May Be Subject to General Economic, Political, and Social Factors

Orders for the Company's products, particularly its Catalyst Research Instruments products, depend in part, on the customer's ability to secure funds to finance purchases. Availability of funds can be affected by budgetary constraints. Factors including a general economic recession, such as the one which commenced in fiscal 2009 and negatively affected the Company since fiscal 2011, the European crisis, or major terrorist attack would likely have a negative impact on the availability of funding including government or academic grants to potential customers.

The Company's ability to secure new Catalyst Research Instruments orders can also be affected by changes in domestic and international policies pertaining to energy and the environment, which could affect funding of potential customers.

The Company is Heavily Dependent on Outside Suppliers for the Components of Its Products

The Company purchases all its components from outside suppliers and relies on a few single suppliers for certain of its Benchtop Laboratory Equipment components, including the Vortex-Genie 2, mostly due to cost considerations. Many of the Company's suppliers, including United States vendors, produce the components directly or indirectly in overseas factories, and orders are subject to long lead times and potential other risks related to production in a foreign country. To minimize the risk of supply shortages, the Company keeps more than normal quantities on hand of the critical components that cannot easily be procured or, where feasible and cost effective, purchases are made from more than one supplier.

The Company's Ability to Compete Depends in Part on Its Ability To Secure and Maintain Proprietary Rights to its Products

The Company has no patent protection for its principal Benchtop Laboratory Equipment product, the Vortex-Genie 2 Mixer, or for its Catalyst Research products and limited patent protection on a few other Benchtop Laboratory Equipment products. There are several competitive products available in the marketplace possessing similar technical specifications and design.

As part of the asset purchase by SBI during fiscal 2012, the Company acquired the rights to various patents for bioprocessing products which it licenses from UMBC.

There can be no assurance that any patent issued, licensed or sublicensed to the Company provides or will provide the Company with competitive advantages or will not be challenged by third

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parties. Furthermore, there can be no assurance that others will not independently develop similar products or design around the patents. Any of the foregoing activities could have a material adverse effect on the Company. Moreover, the enforcement by the Company of its patent or license rights may require substantial litigation costs.

The Company Has Limited Management Resources

The loss of the services of any of Ms. Helena Santos, the Company's Chief Executive and Financial Officer and President, Mr. Robert Nichols, the Company's Executive Vice President and Mr. Brookman March, President of Altamira, or any material expansion of the Company's operations could place a significant additional strain on the Company's limited management resources and could be materially adverse to the Company's operating results and financial condition.

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The Common Stock of the Company is Thinly Traded and is Subject to Volatility

As of August 31, 2012, there were only 1,335,712 shares of Common Stock of the Company outstanding, of which 326,772 shares (24%) were held by the directors and officers of the Company. The Common Stock of the Company is traded on the Over-the-Counter Bulletin Board and, historically, has been thinly traded. There have been a number of trading days during fiscal 2012 on which no trades of the Company's Common Stock were reported. Accordingly, the market price for the Common Stock is subject to great volatility.

Item 2. Properties.

The Company's executive offices and principal manufacturing facility for its Benchtop Laboratory Equipment Operations comprise approximately 25,000 square feet, are located in Bohemia, New York and held pursuant to a lease expiring in January 2015. The Company's Catalyst Research Instruments Operations are conducted from an approximately 9,000 square foot facility in Pittsburgh, Pennsylvania which the Company leases on a month-to-month basis, since July 31, 2011, until a new long-term lease is negotiated. The Bioprocessing Systems operation does not occupy a separate physical location. See Note 10 to the Financial Statements in Item 8. The leased facilities are suitable and adequate for each of the Company's operations. In the opinion of management, all properties are adequately covered by insurance.

Item 3. Legal Proceedings.

The Company is not a party to any pending legal proceedings.

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Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2012.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock is traded in the over-the-counter market. The following table sets forth the low and high bid quotations for each quarter of fiscal 2011 and fiscal 2012, as reported by the National Association of Securities Dealers, Inc. Electronic Bulletin Board. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions:

For Fiscal Quarter Ended:	Low Bid	High Bid
09/30/10	2.56	3.40
12/31/10	2.85	3.25
03/31/11	3.05	3.30
06/30/11	3.15	3.55
09/30/11	2.30	3.26
12/31/11	2.26	3.25
03/31/12	1.49	2.76
06/30/12	1.95	2.25

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(a) As of August 31, 2012, there were 410 record holders of the Company's Common Stock.

(b) On November 13, 2011, the Company paid a cash dividend of \$.05 per share to stockholders of record on September 26, 2011. On December 15, 2010, the Company paid a cash dividend of \$.09 per share to stockholders of record on October 18, 2010. The Company is not subject to any agreement which prohibits or restricts the Company from paying dividends on its Common Stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking statements. 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, success of

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marketing strategy, success of expansion efforts, impact of competition, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control, which are discussed elsewhere in this report. Consequently, no forward-looking statement can be guaranteed. The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and the related notes included elsewhere in this report.

Overview. Income before income taxes decreased by 80% to \$61,900 for fiscal 2012 from \$307,200 for fiscal 2011, primarily as a result of the reduction in income and net sales of the Benchtop Laboratory Equipment Operations, and the operation of and acquisition costs of its recently commenced Bioprocessing Systems Operations. The Catalyst Research Instruments Operations also recorded a loss in fiscal 2012, albeit lower than that of fiscal 2011 due to significantly higher sales.

The Company continues to be negatively impacted by adverse global economic conditions, reflecting the dependence of the Company's customers on discretionary funding for research.

Results of Operations. Net sales for fiscal 2012 increased \$332,800 (5.7%) to \$6,202,600 from \$5,869,800 for fiscal 2011 reflecting an increase of \$596,200 (44.3%) in net sales of catalyst research instruments and the revenues of \$101,200 (primarily in the form of net royalties received) by the recently commenced Bioprocessing Systems Operations, partially offset by a decrease of \$364,600 (8.1%) in sales of benchtop laboratory equipment resulting from lower sales to U.S. customers.

Sales of catalyst research instruments are comprised of a small number of large orders, typically averaging more than \$100,000 each. As of June 30, 2012, the order backlog for these products was \$303,200 compared to \$424,600 as of June 30, 2011.

Revenues derived from the new Bioprocessing Systems Operations consists of net royalties received from sublicensees and sales of new products currently under development.

The gross profit percentage for fiscal 2012 was 38.0% compared to 41.0% for fiscal 2011 due to lower margins resulting from the sales mix between the Benchtop Laboratory Equipment Operations and the Catalyst Research Instruments Operations.

General and administrative expenses for fiscal 2012 increased \$55,500 (4.7%) to \$1,230,600 compared to \$1,175,100 for fiscal 2011, primarily the result of amortization expense for the intangible assets and the acquisition costs of the Bioprocessing Systems Operations.

Selling expenses for fiscal 2012 increased by

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\$75,700 (11.9%) to \$714,200 from \$638,500 for fiscal 2011, primarily due to increased selling activities by the Benchtop Laboratory Equipment Operations.

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Research and development expenses increased by \$51,500 (15.9%) to \$375,900 compared to \$324,400 for fiscal 2011, primarily the result of increased new product development by the Benchtop Laboratory Equipment Operations in the fourth quarter, and costs incurred by the Bioprocessing Systems Operations.

Total other income decreased by \$11,200 (30.8%) to \$25,200 for fiscal 2012 from \$36,400 for fiscal 2011, mainly due to smaller cash balances and lower interest rates, and the interest expense incurred by the new Bioprocessing Systems Operations.

The income tax benefit for fiscal 2012 was \$4,200 compared to \$79,600 income tax expense for fiscal 2011 resulting from the future deductions attributable to the SBI acquisition and research and development credits.

As a result of the foregoing, net income for fiscal 2012 was \$66,100, a decrease of \$161,500 (71.0%) from \$227,600 for fiscal 2011.

Liquidity and Capital Resources. Cash and cash equivalents decreased by \$138,500 to \$769,300 as of June 30, 2012 from \$907,800 as of June 30, 2011.

Net cash provided by operating activities was \$331,800 for fiscal 2012 as compared to \$652,500 for fiscal 2011 due to lower income and a smaller change in accounts receivable balances. The prior year reflected a large collection by Altamira of accounts receivable outstanding as of June 30, 2010. Cash used in investing activities increased to \$350,300 for fiscal 2012 compared to \$269,700 for fiscal 2011 mostly due to the cash included in the asset purchase consideration by SBI. Net cash used in financing activities increased to \$120,000 for fiscal 2012 compared to fiscal 2011 mainly due to the additional cash outlays required for the asset purchase, partially offset by the lower dividend paid in fiscal 2012.

The Company's working capital was \$3,417,200 as of June 30, 2012 compared to \$3,724,000 as of June 30, 2011, primarily the result of lower operating income and the asset purchase by SBI.

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, bearing interest at 3.08 percentage points above the LIBOR Index, which was approximately 3.32% at June 30, 2012 and is to be secured by a pledge of collateral

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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 August 31, 2012, no borrowings under the line are outstanding.

On September 21, 2012, the Board of Directors of the Company declared a cash dividend of \$.03 per share of Common Stock payable on November 1, 2012 to holders of record as of the close of business on October 1, 2012.

Management believes that the Company will be able to meet, absent a material capital expenditure, its cash flow needs during the 12 months ending June 30, 2013 from its available financial resources including its cash and investment securities, and operations.

Capital Expenditures. During fiscal 2012, the Company incurred \$75,300 in capital expenditures. The Company expects that based on its current operations, its capital expenditures will not be materially higher for the fiscal year ending June 30, 2013.

Off-Balance Sheet Arrangements. None.

Item 8. Financial Statements and Supplementary Data.

The Financial Statements required by this item are attached hereto on pages F1-F25.

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Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this Annual Report on Form 10-K, 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

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timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f) and 15d-15(f). The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Chief Executive and Chief Financial Officer of the Company conducted an evaluation of the effectiveness of the Company's internal controls over financial reporting as of June 30, 2012 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Based on the assessment of the Company's Chief Executive and Chief Financial Officer of the Company, it was concluded that as of June 30, 2012, the Company's internal controls over financial reporting were effective based on these criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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.

Inherent Limitations on Effectiveness of Controls. The Company's management, including its Chief Executive and Chief Financial Officer, believes that its disclosure controls and procedures and internal controls over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, management does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances

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of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon

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certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information with respect to directors and executive officers of the Company will be set forth under the heading "Election of Directors" in the Company's definitive proxy statement which is being filed on or prior to October 28, 2012 under the Securities Exchange Act of 1934, as amended and is incorporated herein by reference thereto.

Item 11. Executive Compensation.

The information with respect to executive compensation will be set forth under the heading "Election of Directors" in the Company's definitive proxy statement which is being filed on or prior to October 28, 2012 under the Securities Exchange Act of 1934, as amended and is incorporated herein by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information with respect to security ownership of certain beneficial owners and management will be set forth under the heading "Election of Directors" in the Company's definitive proxy statement which is being filed on or prior to October 28, 2012 under the Securities Exchange Act of 1934, as amended and is incorporated herein by reference thereto.

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Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information with respect to certain relationships and related transactions, and director independence, will be set forth under the heading "Election of Directors" in the Company's definitive proxy statement which is being filed on or prior to October 28, 2012 under the Securities Exchange Act of 1934, as amended and is incorporated herein by reference thereto.

Item 14. Principal Accountant Fees and Services.

Information with respect to principal accountant fees and services, will be set forth under the heading "Appointment of Independent Registered Public Accounting Firm" in the Company's definitive proxy statement which is being filed on or prior to October 28, 2012 under the Securities Exchange Act of 1934, as amended and is incorporated herein by reference thereto.

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Part IV

Item 15. Exhibits and Financial Statements.

Financial Statements. The required financial statements of the Company are attached hereto on pages F1-F25.

Exhibits. The following Exhibits are filed as part of this report on Form 10-K:

Exhibit Number	Exhibit
3	Articles of Incorporation and By-Laws:
3(a)	Certificate of Incorporation of the Company as amended. (filed as Exhibit 1(a-1) to the Company's General Form for Registration of Securities on Form 10 dated February 14, 1973 and incorporated by reference thereto.)
3(b)	Certificate of Amendment of the Company's Certificate of Incorporation, as filed on January 28, 1985 (filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1985 and incorporated by reference thereto.)
3(c)	By-Laws of the Company, as restated and amended. (filed as Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on January 6, 2003 and Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on December 5, 2007 and incorporated by reference thereto).
4	Instruments defining the rights of

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security holders:

4(a) 2002 Stock Option Plan (filed as Exhibit 99-1 to the Company's Current Report on Form 8-K filed on November 25, 2002 and incorporated by reference thereto).

4(b) 2012 Stock Option Plan (filed as Exhibit 10 to the Company's Current Report on Form 8-K filed on January 23, 2012 and incorporated by reference thereto).

10 Material Contracts:

10(a) Lease between Registrant and AIP Associates, predecessor-in-interest of current lessor, dated October, 1989 with respect to Company's offices and facilities in Bohemia, New York. (filed as Exhibit 10(a) to the Company's Form 10-KSB filed on September 28, 2005 and incorporated by reference thereto).

10(a)-1 Amendment to lease between Registrant and REP A10 LLC, successor in interest of AIP Associates, dated September 1, 2004 (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on September 2, 2004, and incorporated by reference thereto).

10(a)-2 Second amendment to lease between Registrant and REP A10 LLC dated November 5, 2007 (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on November 8, 2007, and incorporated by reference thereto).

10(b) Employment Agreement dated January 1, 2003, by and between the Company and Ms. Santos (filed as Exhibit 10(a) to the Company's Current Report on Form 8-K filed on January 22, 2003, and incorporated by reference thereto).

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10(b)-1 Employment Agreement dated September 1, 2004, by and between the Company and Ms. Santos (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on September 1, 2004, and incorporated by reference thereto).

10(b)-2 Employment Agreement dated December 29, 2006, by and between the Company and Ms. Santos (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on December 29, 2006, and incorporated by reference thereto).

10(b)-3 Employment Agreement dated July 31, 2009 by and between the Company and Ms. Santos (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on August 7, 2009, and incorporated by reference thereto).

10(b)-4 Employment Agreement dated May 14, 2010 by and between the Company and Ms. Santos (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on May 18, 2010, and incorporated by reference thereto).

10(b)-5 Employment Agreement dated September 13, 2011

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by and between the Company and Ms. Santos. (filed as exhibit 10(b)-5 to the Company's Annual Report on form 10-K for the fiscal year ended June 30, 2011, and incorporated with reference thereto).

10(c) Employment Agreement dated January 1, 2003, by and between the Company and Mr. Robert P. Nichols (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on January 22, 2003, and incorporated by reference thereto).

10(c)-1 Employment Agreement dated September 1, 2004, by and between the Company and Mr. Nichols (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on September 1, 2004, and incorporated by reference thereto).

10(c)-2 Employment Agreement dated December 29, 2006, by and between the Company and Mr. Nichols (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on December 29, 2006, and incorporated by reference thereto).

10(c)-3 Employment Agreement dated July 31, 2009 by and between the Company and Mr. Nichols (filed as Exhibit 10A-2 to the Company's Current Report on Form 8-K filed on August 7, 2009, and incorporated by reference thereto).

10(c)-4 Employment Agreement dated May 14, 2010 by and between the Company and Mr. Nichols (filed as Exhibit 10A-2 to the Company's Current Report on Form 8-K filed on May 18, 2010, and incorporated by reference thereto).

10(c)-5 Employment Agreement dated September 13, 2011 by and between the Company and Mr. Nichols. (filed as Exhibit 10(c)-5 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2011, and incorporated by reference thereto).

10(d) Consulting Agreement dated January 1, 2003 by and between the Company and Mr. Cremonese and his affiliate, Laboratory Innovation Company, Ltd., (filed as Exhibit 10(b) to the Company's Current Report on Form 8-K filed on January 6, 2003, and incorporated by reference thereto).

10(d)-1 Amended and Restated Consulting Agreement dated March 22, 2005, by and between the Company and Mr. Cremonese and Laboratory Innovation Company, Ltd., (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on March 23, 2005, and incorporated by reference thereto).

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10(d)-2 Second Amended and Restated Consulting Agreement dated March 15, 2007, by and between the Company and Mr. Cremonese and Laboratory Innovation Company Ltd., (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on March 16, 2007, and incorporated by reference thereto).

10(d)-3 Third Amended and Restated Consulting Agreement dated September 23, 2009, by and between the Company and Mr. Cremonese and Laboratory Innovation Company, Ltd., (filed as exhibit 10 to the

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Company's Annual Report on Form 10-K filed on September 24, 2009, and incorporated by reference thereto).

10(d)-4 Fourth Amended and Restated Consulting Agreement dated January 7, 2011 (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on January 18, 2011, and incorporated by reference thereto).

10(d)-5 Fifth Amendment and Restated Consulting Agreement dated January 20, 2012 (filed as Exhibit 10 to the Company's Current Report on Form 8-K filed on January 23, 2012, and incorporated by reference thereto).

10(e) Sublicense from Fluorometrix Corporation (filed as Exhibit 10(a)1 to the Company's Current Report on Form 8-K filed on June 14, 2006, and incorporated by reference thereto).

10(f) Stock Purchase Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(g) Escrow Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (filed as Exhibit 10(a) to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(h) Registration Rights Agreement, dated as of November 30, 2006, by and among the Company and Grace Morin, Heather H. Haught and William D. Chandler (filed as Exhibit 10(b) to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(i) Employment Agreement, dated as of November 30, 2006, between Altamira Instruments, Inc. and Brookman P. March (filed as Exhibit 10(c) to the Company's Current Report on Form 8-K filed on December 5, 2006, and incorporated by reference thereto).

10(i)-1 Employment Agreement, dated as of October 30, 2008, between Altamira Instruments, Inc. and Brookman P. March (filed as Exhibit 10A-2 to the Company's Current Report on Form 8-K filed on October 30, 2008, and incorporated by reference thereto).

10(i)-2 Employment Agreement, dated as of October 1, 2010, between Altamira Instruments, Inc., and Brookman P. March (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on October 13, 2010, and incorporated by reference thereto).

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10(i)-3 Employment Agreement, dated as of May 18, 2012 between Altamira Instruments, Inc. and Brookman P. March.

10(j) Indemnity Agreement, dated as of April 13, 2007 by and among the Company and Grace Morin, Heather H. Haught and William

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D. Chandler (filed as Exhibit 10(j) to the Company's Form 10-KSB filed on September 28, 2007 and incorporated by reference thereto).

10(k) Lease between Altamira Instruments, Inc. and Allegheny Homes, LLC, with respect to the Company's Pittsburgh, Pennsylvania facilities (filed as Exhibit 10(k) to the Company's Form 10-KSB filed on September 28, 2007 and incorporated by reference thereto).

10(l) Line of Credit Agreements dated October 30, 2008, by and among the Company and Capital One, N.A. (filed as Exhibits 10-A1(a) through (f) to the Company's Current Report on Form 8-K filed on October 30, 2008, and incorporated by reference thereto).

10(l)-1 Restated Promissory Note Agreement dated January 20, 2010 by and among the Company and Capital One N.A. (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 20, 2010, and incorporated by reference thereto).

10(l)-2 Restated Promissory Note Agreement dated January 5, 2011 by and among the Company and Capital One N.A. (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 6, 2011, and incorporated by reference thereto).

10(m) Consulting Agreement dated April 1, 2009 by and between the Company and Grace Morin (filed as Exhibit 10A-1 to the Company's Current Report on Form 8-K filed on April 1, 2009, and incorporated by reference thereto).

10(n) Line of Credit Agreements dated June 14, 2011, by and among the Company and JPMorgan Chase Bank, N.A. (filed as Exhibits 99.1 through 99.3 to the Company's Current Report on Form 8-K filed on June 16, 2011, and incorporated by reference thereto).

10(o) Purchase Agreement, dated as of November 14, 2011, by and among the Company, Scientific Bioprocessing, Inc. and Fluorometrix Corporation (filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on November 17, 2011, and incorporated by reference thereto).

10(p) Escrow Agreement, dated as of November 14, 2011, by and among the Company, Scientific Bioprocessing, Inc. and Fluorometrix Corporation (filed as Exhibit 10(A) to the company's Report on Form 8-K filed on November 17, 2011, and incorporated by reference thereto).

10(q) Research and Development Agreement dated as of November 14, 2011, by and between Scientific Bioprocessing, Inc. and Biodox R&D Corporation (filed as Exhibit 10(B) to the Company's Report on Form 8-K filed on November 17, 2011, and incorporated by reference thereto).

10(r) Non-Competition Agreement, dated as of November 14, 2011, by and among the Company, Scientific Bioprocessing, Inc. and Joseph E. Qualitz (filed as Exhibit 10(D) to the Company's Report on Form 8-K filed on November 17, 2011, and incorporated by reference

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thereto).

10(s) Promissory Note, dated as of November 14, 2011, by and between the Company and the University of Maryland, Baltimore County (filed as Exhibit 10(c) to the company's Report on Form 8-K filed on November 17, 2011, and incorporated by reference thereto).

10(t) License Agreement, dated as of January 31, 2001 by and between University of Maryland, Baltimore County and Fluorometrix Corporation (filed as Exhibit 10(E) to the Company's Report on Form 8-K filed on November 21, 2011, and incorporated by reference thereto).

14 Code of Ethics (filed as Exhibit 14 to the Company's Form 10-KSB filed on September 28, 2007 and incorporated by reference thereto).

21 Subsidiaries of the Registrant

Scientific Packaging Industries, Inc., a New York corporation, is a wholly-owned inactive subsidiary of the Company.

Altamira Instruments, Inc., a Delaware Corporation, is a wholly-owned subsidiary of the Company.

Scientific Bioprocessing, Inc., a Delaware Corporation, is a wholly-owned subsidiary of the Company since November 2011.

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

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, 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,
Treasurer
Chief Financial and Principal
Accounting Officer

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Date: September 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Helena R. Santos Helena R. Santos	President and Treasurer (Chief Executive Officer and Financial Officer) and Director	September 27, 2012
/s/ Joseph G. Cremonese Joseph G. Cremonese	Chairman of the Board	September 27, 2012
/s/ Roger B. Knowles Roger B. Knowles	Director	September 27, 2012
/s/ Grace S. Morin Grace S. Morin	Director	September 27, 2012
/s/ James S. Segasture James S. Segasture	Director	September 27, 2012

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SCIENTIFIC INDUSTRIES, INC.
AND SUBSIDIARIES

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

AS OF AND FOR THE
YEARS ENDED JUNE 30, 2012 AND 2011

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Scientific Industries, Inc.
Bohemia, New York

We have audited the accompanying consolidated balance sheets of Scientific Industries, Inc. and subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The

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Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scientific Industries, Inc. and subsidiaries as of June 30, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Nussbaum Yates Berg Klein & Wolpow, LLP

Nussbaum Yates Berg Klein & Wolpow, LLP
Melville, New York

September 27, 2012

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
	<u> </u>	<u> </u>
Current assets		
Cash and cash equivalents	\$ 769,300	\$ 907,800
Investment securities	718,300	693,400
Trade accounts receivable, less allowance for doubtful accounts of \$11,600 in 2012 and 2011	623,500	620,000
Inventories	1,613,700	1,639,800
Prepaid and other current assets	167,800	197,700
Deferred taxes	70,200	77,700

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Total current assets	3,962,800	4,136,400
Property and equipment, net	180,500	175,100
Intangible assets, net	877,300	112,300
Goodwill	589,900	447,900
Other assets	25,700	25,700
Deferred taxes	136,000	115,800
	<hr/>	<hr/>
Total assets	\$5,772,200	\$5,013,200
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 114,800	\$ 128,100
Customer advances	98,500	-
Accrued expenses and taxes	237,500	284,300
Contingent consideration, current	19,000	-
Notes payable, current portion	75,800	-
	<hr/>	<hr/>
Total current liabilities	545,600	412,400
Contingent consideration payable, less current portion	88,400	-
Notes payable, less current portion	105,000	-
	<hr/>	<hr/>
Total liabilities	739,000	412,400
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; issued 1,355,514 shares in 2012 and 1,216,379 in 2011	67,800	60,800
Additional paid-in capital	1,968,700	1,558,500
Accumulated other comprehensive loss, unrealized holding loss on investment securities	(12,600)	(21,500)
Retained earnings	3,061,700	3,055,400
	<hr/>	<hr/>
Total shareholders' equity	5,085,600	4,653,200
Less common stock held in treasury at cost, 19,802 shares	52,400	52,400
	<hr/>	<hr/>
Total shareholders' equity	5,033,200	4,600,800
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$5,772,200	\$5,013,200
	=====	=====

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See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Net sales	\$6,202,600	\$5,869,800
Cost of sales	3,845,200	3,461,000
Gross profit	2,357,400	2,408,800
Operating expenses:		
General and administrative	1,230,600	1,175,100
Selling	714,200	638,500
Research and development	375,900	324,400
Total operating expenses	2,320,700	2,138,000
Income from operations	36,700	270,800
Other income (expense):		
Interest income	12,800	21,900
Other income	17,000	14,500
Interest expense	(4,600)	-
Total other income	25,200	36,400
Income before income tax expense (benefit)	61,900	307,200
Income tax expense (benefit):		
Current	15,500	104,500
Deferred	(19,700)	(24,900)
Total income tax expense (benefit)	(4,200)	79,600
Net income	\$ 66,100	\$ 227,600
Basic earnings per common share	\$.05	\$.19
Diluted earnings per common share	\$.05	\$.19
Weighted average common shares outstanding, basic		
	1,283,118	1,196,577
Weighted average common shares outstanding, assuming dilution		
	1,293,589	1,213,482

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See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Net income	\$ 66,100	\$ 227,600
Other comprehensive income:		
Unrealized holding gain arising during period, net of tax	8,900	8,300
Comprehensive income	\$ 75,000	\$ 235,900

See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Common Stock	Additional	Paid-in	Accumulated
	Shares	Amount	Capital	Other Compr- ehensive Loss
Balance, July 1, 2010	1,216,379	\$60,800	\$1,537,200	\$ (29,800)
Net income	-	-	-	-
Unrealized holding gain on investment securities, net of tax	-	-	-	8,300
Stock-based compensation	-	-	21,300	-
Cash dividend declared and paid, \$.09 per share	-	-	-	-
Balance, June 30, 2011	1,216,379	60,800	1,558,500	(21,500)
Net income	-	-	-	-

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Unrealized holding gain on investment securities, net of tax	-	-	-	8,900
Exercise of stock options	4,000	200	9,400	-
Issuance of common stock	135,135	6,800	393,200	-
Stock-based compensation	-	-	7,000	-
Income tax benefit of stock options exercised	-	-	600	-
Cash dividend declared and paid, \$.05 per share	-	-	-	-
Balance, June 30, 2011	<u>1,355,514</u>	<u>\$67,800</u>	<u>\$1,968,700</u>	<u>\$ (12,600)</u>
	=====	=====	=====	=====

See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

YEARS ENDED JUNE 30, 2012 AND 2011

	Retained	Treasury Stock		Shareholders'
	Earnings	Shares	Amount	Equity
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, July 1, 2010	\$2,935,500	19,802	\$52,400	\$4,451,300
Net income	227,600	-	-	227,600
Unrealized holding loss on investment securities, net of tax	-	-	-	8,300
Stock-based compensation	-	-	-	21,300
Cash dividend declared and paid, \$.09 per share	(107,700)	-	-	(107,700)
Balance, June 30, 2011	<u>3,055,400</u>	<u>19,802</u>	<u>52,400</u>	<u>4,600,800</u>
Net income	66,100	-	-	66,100
Unrealized holding gain on investment securities, net of tax	-	-	-	8,900

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Exercise of stock options	-	-	-	9,600
Issuance of common stock	-	-	-	400,000
Stock-based compensation	-	-	-	7,000
Income tax benefit of stock options exercised	-	-	-	600
Cash dividend paid, \$.05 per share	(59,800)	-	-	(59,800)
Balance, June 30, 2012	<u>\$3,061,700</u>	<u>19,802</u>	<u>\$52,400</u>	<u>\$5,033,200</u>
	=====	=====	=====	=====

See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
	<u> </u>	<u> </u>
Operating activities:		
Net income	\$ 66,100	\$ 227,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	185,900	188,400
Deferred income tax benefit	(19,700)	(24,900)
Income tax benefit of stock options exercised	600	-
Loss on disposal of asset	-	4,600
Loss on sale of investment securities	1,000	-
Stock-based compensation	7,000	21,300
Changes in operating assets and liabilities:		
Trade accounts receivable	(3,500)	874,500
Inventories	26,100	(367,200)
Prepaid and other current assets	29,900	(110,500)
Accounts payable	(13,300)	(99,600)
Customer advances	98,500	-
Accrued expenses and taxes	(46,800)	(61,700)
Total adjustments	<u>265,700</u>	<u>424,900</u>

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Net cash provided by operating activities	331,800	652,500
Investing activities:		
Additional consideration for acquisition of Altamira	-	(182,600)
Payment for intangible assets acquired in acquisition (Note 2)	(260,000)	-
Purchase of investment securities, available for sale	(10,900)	(14,000)
Redemption of investment securities, available for sale	800	-
Capital expenditures	(75,300)	(63,600)
Purchase of intangible assets	(4,900)	(9,500)
Net cash used in investing activities	(350,300)	(269,700)
Financing activities:		
Line of credit proceeds	60,000	-
Line of credit repayments	(60,000)	-
Payment of contingent consideration	(20,600)	-
Proceeds from exercise of stock options	9,600	-
Cash dividend declared and paid	(59,800)	(107,700)
Principal payments on note payable	(49,200)	-
Net cash used in financing activities	(120,000)	(107,700)

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	2012	2011
Net increase (decrease) in cash and cash equivalents	(138,500)	275,100
Cash and cash equivalents, beginning of year	907,800	632,700
Cash and cash equivalents, end of year	\$ 769,300	\$ 907,800
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	\$ 3,200	\$ 298,500
Interest	4,600	-

Non-cash investing and financing activities (Note 2)

See notes to consolidated financial statements.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies

Nature of Operations

Scientific Industries, Inc. and its subsidiaries (the "Company") design, manufacture, and market a variety of benchtop laboratory equipment, bioprocessing products and catalyst research instruments. The Company is headquartered in Bohemia, New York where it produces benchtop laboratory equipment for research and has another location in Pittsburgh, Pennsylvania, where it produces a variety of custom-made catalyst research instruments and designs bioprocessing products. The equipment sold by the Company includes mixers, shakers, stirrers, refrigerated incubators, catalyst characterization instruments, reactor systems and high throughput systems.

Principles of Consolidation

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

Revenue Recognition

Revenue from product sales is recognized when all the following criteria are met:

- * Receipt of a written purchase order agreement which is binding on the customer.
- * Goods are shipped and title passes.
- * Prices are fixed.
- * Collectability is reasonably assured.
- * All material obligations under the agreement have been substantially performed.

Substantially all orders are F.O.B. shipping point, all sales are final without right of return or payment contingencies, and there are no special sales arrangements or agreements with any customers.

Royalty revenue received under the Company's sublicenses is recorded net of payments due to its licensors.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of 90 days or less to be cash equivalents.

On November 9, 2010, the Federal Deposit Insurance Company ("FDIC") issued a Final Rule providing unlimited insurance coverage of non-

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interest bearing transaction accounts, regardless of balance, for the period December 31, 2010 through December 31, 2012. At June 30, 2012, the Company held approximately \$217,100 of its cash in non-interest bearing accounts. The remainder of its cash balance is subject to FDIC insurance limits.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

In order to record the Company's accounts receivable at their net realizable value, the Company must assess their collectability. A considerable amount of judgment is required in order to make this assessment, including an analysis of historical bad debts and other adjustments, a review of the aging of the Company's receivables, and the current creditworthiness of the Company's customers. The Company has recorded allowances for receivables which it considered uncollectible, including amounts for the resolution of potential credit and other collection issues such as disputed invoices, customer satisfaction claims and pricing discrepancies. However, depending on how such potential issues are resolved, or if the financial condition of any of the Company's customers was to deteriorate and its ability to make required payments became impaired, increases in these allowances may be required. The Company actively manages its accounts receivable to minimize credit risk. The Company does not obtain collateral for its accounts receivable.

Customer Advances

In the ordinary course of business, customers may make advance payments for purchase orders. Such amounts, when received, are categorized as liabilities under the caption customer advances.

Investment Securities

Securities available for sale are carried at fair value with unrealized gains or losses reported in a separate component of shareholders' equity. Realized gains or losses are determined based on the specific identification method.

Inventories

Inventories are valued at the lower of cost (determined on a first in, first out basis) or market value, and have been reduced by an allowance for excess and obsolete inventories. The estimate is based on management's review of inventories on hand compared to estimated future usage and sales. Cost of work-in-process and finished

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goods inventories include material, labor and manufacturing overhead.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided for primarily by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized by the straight-line method over the term of the related lease or the estimated useful lives of the assets, whichever is shorter.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies (Continued)

Intangible Assets

Intangible assets consist primarily of acquired technology, customer relationships, non-compete agreements, patents, licenses, trademarks and trade names. All intangible assets are amortized over the estimated useful lives of the respective assets, generally 5 to 10 years, except for customer relationships which are amortized on an accelerated (declining-balance) basis over their estimated useful lives. The Company continually evaluates the remaining estimated useful lives of intangible assets that are being amortized to determine whether events or circumstances warrant a revision to the remaining period of amortization.

Goodwill and Long-Lived Assets

Goodwill represents the excess of purchase price over the fair value of identifiable net assets acquired in a business combination. Goodwill and long-lived intangible assets are tested for impairment at least annually in accordance with the provisions of ASC No. 350, "Intangibles-Goodwill and Other" ("ASC No. 350"). ASC No. 350 requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The Company tests goodwill and long-lived assets annually as of June 30, the last day of its fiscal year, unless an event occurs that would cause the Company to believe the value is impaired at an interim date.

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Impairment of Long-Lived Assets

The Company follows the provisions of ASC No. 360-10, "Property, Plant and Equipment - Impairment or Disposal of Long-Lived Assets ("ASC No. 360-10"). ASC No. 360-10 requires evaluation of the need for an impairment charge relating to long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an evaluation for impairment is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write down to a new depreciable basis is required. If required, an impairment charge is recorded based on an estimate of future discounted cash flows. No impairment charge has been recorded for the years ended June 30, 2012, and 2011.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company and its subsidiaries file a consolidated U.S. federal income tax return. Income taxes are accounted for under the asset and liability method. The Company provides for federal, and state income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributed to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Advertising

Advertising costs are expensed as incurred. Advertising expense amounted to \$26,700 and \$26,000 for the years ended June 30, 2012

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and 2011.

Shipping and Handling

The Company classifies costs associated with shipping and handling fees as a component of cost of goods sold.

Stock Compensation Plan

The Company has a ten-year stock option plan (the "2012 Plan") which provides for the grant of options to purchase up to 100,000 shares of the Company's Common Stock, par value \$.05 per share ("Common Stock"), plus 57,000 options previously granted under the 2002 Stock Option Plan of the Company (the "Prior Plan"). The 2012 Plan provides for the granting of incentive or non-incentive stock options as defined in the 2012 Plan and options under the 2012 Plan may be granted until 2022. Incentive stock options may be granted to employees at an exercise price equal to 100% (or 110% if the optionee owns directly or indirectly more than 10% of the outstanding voting stock) of the fair market value of the shares of Common Stock on the date of the grant which shall not be less than the book value per share of Common Stock as of the end of the most recent fiscal quarter. Non-incentive stock options shall not be granted at less than the fair market value of the shares of Common Stock on the date of grant, and the per share book value. At June 30, 2012, 93,000 shares of Common Stock were available for grant under the 2012 Plan and the Prior Plan.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies (Continued)

Stock Compensation Plan (Continued)

Stock-based compensation is accounted for in accordance with ASC No. 718 "Compensation-Stock Compensation" ("ASC No. 718") which requires compensation costs related to stock-based payment transactions to be recognized. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards are measured at each reporting period. Compensation costs are recognized over the period that an employee provides service in exchange for the award. During the years ended June 30, 2012 and 2011, the Company granted 15,000 and 12,000 options that had a fair value of \$15,700 and \$19,900, respectively, to employees and consultants. The fair value of the options granted during fiscal years 2012 and 2011 were determined using the Black-Scholes-Merton option-pricing model. The weighted average assumptions used for fiscal 2012 and 2011, respectively, were an expected life of 7 and 6 years; risk free interest rate of 1.00% and 2.09%; volatility of 69% and 73%;

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and dividend yield of 1.54% and 2.99%. The weighted-average value per share of the options granted in 2012 and 2011 was \$1.05 and \$1.66, respectively, and stock-based compensation costs were \$7,000 and \$21,300 for the years ended June 30, 2012 and 2011, respectively. Stock-based compensation costs related to nonvested awards to be recognized in the future are \$11,900 and \$3,200 as of June 30, 2012 and 2011, respectively.

The Company did not grant any options or warrants as compensation for goods or services to non-employees, except to a director who was granted 10,000 options that had a fair value of \$10,000 and \$15,300 in each of the years ended June 30, 2012 and 2011, respectively, for consulting services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The actual results experienced by the Company may differ materially from management's estimates.

Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of shares outstanding. Diluted earnings per common share includes the dilutive effect of stock options.

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1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") no. 2011-08, Intangibles-Goodwill and Other (Topic 350) - Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for the Company in fiscal 2013 and earlier adoption is permitted. The Company opted for early adoption as of June 30, 2012. The adoption of ASU 2011-08 did not have an impact on the Company's consolidated results of operations, financial condition or cash flows.

In June 2011, the 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, it requires

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the Company to 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 is effective for public companies during the annual periods beginning after December 15, 2011 with early adoption permitted. The Company opted for early adoption as of March 31, 2012. The adoption of ASU 2011-05 did not have an impact on the Company's consolidated results of operations, financial condition or cash flows as it only requires a change in the format of our current presentation.

2. Acquisition

On November 14, 2011 the Company through SBI, acquired substantially all of the assets of a privately owned company consisting principally of a license and sublicenses under patents held by the University of Maryland, Baltimore County ("UMBC") with respect to the design, development and production of bioprocessing methods, systems and products. The acquisition was pursuant to an asset purchase agreement ("APA") whereby the Company paid to the seller \$260,000 in cash, issued 135,135 shares of Common Stock valued at \$400,000, issued to UMBC a \$230,000 36-month note payable, and agreed to make additional cash payments equal to 30% of net royalties received under the acquired license and sublicenses, to the sellers estimated at a present value of \$128,000 on the date of acquisition. The Company was unable to obtain audited financial statements of the business acquired in connection with the acquisition. The inability to include the related audited financial statement as required by the Securities Exchange Act of 1934 in the related Report on Form 8-K filing resulted in the inability of the Company to register under the Securities Act of 1933, as amended, offerings of the Company's securities during the one year period ending November 2012.

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2. Acquisition (Continued)

SBI's revenues are derived from royalties received by SBI under the various sublicense agreements, net of royalty payments due to UMBC and revenues from future sales of certain products being developed under its existing license. University, government, and industrial laboratories working primarily in the biotechnology industry worldwide are its targeted customers.

Management of the Company allocated the purchase price based on its valuation of the assets acquired, all of which are intangible, as follows:

Technology, trademarks, and in-process research & development ("IPR&D")	\$ 500,000
Sublicense agreements	294,000
Engineering drawings and software	64,000
Non-competition agreements	18,000
Goodwill*	142,000
Total Purchase Price	<u>\$1,018,000</u> =====

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*See Note 7, "Goodwill and Other Intangible Assets".

The amounts allocated to Technology, Trademarks, and IPRD and Sublicense Agreements are deemed to have a useful life of 10 years, and to the remaining intangible assets to have a useful life 5 years, all of which are being amortized on a straight-line basis, except for goodwill.

In connection with the acquisition, SBI entered into a research and development agreement providing for the seller to perform services with respect to the research and development of bioprocessing methods, systems, and products pursuant to programs set forth in the agreement, at a fee of \$14,000 per month with SBI plus all related expenses. The agreement is for a two year term with SBI having three one-year extension options. SBI has the right to terminate the agreement in the event of a failure to achieve the designated product development terms set forth in the agreement.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

2. Acquisition (Continued)

Pro forma results

The unaudited pro forma condensed consolidated financial information in the table below summarizes the consolidated results of operations of Scientific, Altamira, and SBI on a pro forma basis, as though the companies had been consolidated as of the beginning of each of the fiscal years presented. The unaudited pro forma condensed financial information presented below is for informational purposes only and is not intended to represent or be indicative of the consolidated results of the operations that would have been achieved if the acquisition had been completed as of the commencement of the fiscal year presented. In addition, the Company was unable to obtain audited historical financial statements and therefore the information presented is based on management's best judgment using the unaudited financial information provided and the effects of the acquisition including amortization and interest expenses excluding total acquisition related costs incurred of \$78,500 for the year ended June 30, 2012:

	2012	2011
	<u> </u>	<u> </u>
Net sales	\$6,352,700	\$6,019,800
Net income (loss)	\$ (48,200)	\$ 83,400

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Net income (loss) per share - basic	\$ (.04)	\$.06
Net income (loss) per share - diluted	\$ (.04)	\$.06

3. Segment Information and Concentrations

The Company views its operations as three 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"), 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") and the design of bioprocessing systems and products and related royalty income ("Bioprocessing Systems").

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

3. Segment Information and Concentrations (Continued)

Segment information is reported as follows:

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
June 30, 2012:					
Net Sales	\$4,160,500	\$1,940,900	\$ 101,200	\$ -	\$6,202,600
Foreign Sales	2,505,300	884,000	3,600	-	3,392,900
Profit (Loss)	416,800	(190,400)	(111,200)	(78,500)	36,700
Assets	2,366,100	1,083,400	822,800	1,499,900	5,772,200
Long-Lived Asset Expenditures	30,700	49,500	1,018,000	-	1,098,200
Depreciation and Amortization	49,300	76,700	59,900	-	185,900

Benchtop Catalyst Corporate

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	Laboratory Equipment	Research Instruments	and Other	Conso- lidated
June 30, 2011:				
Net Sales	\$4,525,100	\$1,344,700	\$ -	\$5,869,800
Foreign Sales	2,496,200	663,900	-	3,160,100
Profit (Loss)	584,400	(313,600)	-	270,800
Assets	2,501,000	1,177,400	1,334,800	5,013,200
Long-Lived Asset				
Expenditures	39,300	24,300	-	63,600
Depreciation and				
Amortization	56,000	132,400	-	188,400

During the year ended June 30, 2011, one customer accounted for approximately 11% of the Company's total sales.

Certain information relating to the Company's export sales follows:

	2012	2011
Export sales (principally Europe and Asia)	\$3,392,900	\$3,160,100

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

4. Fair Value of Financial Instruments

The Financial Accounting Standards Board 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 for 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.

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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.

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 June 30, 2012 and 2011 according to the valuation techniques the Company used to determine their fair values:

Fair Value Measurements Using Inputs Considered as

Assets:

	Fair Value at June 30, 2012	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 769,300	\$ 769,300	\$ -	\$ -
Available for sale securities	718,300	718,300	-	-
Total	\$1,487,600	\$1,487,600	\$ -	\$ -
Liabilities:				
Contingent consideration	\$ 107,400	\$ -	\$ -	\$107,400
	=====	=====	=====	=====

Fair Value Measurements Using Inputs Considered as

Assets:

	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	\$ -	\$ -
	=====	=====	=====	=====

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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4. Fair Value of Financial Instruments (Continued)

Investments in marketable securities classified as available-for-sale by security type at June 30, 2012 and 2011 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
	<u> </u>	<u> </u>	<u> </u>
At June 30, 2012:			
Available for sale:			
Equity securities	\$ 5,900	\$ 16,000	\$ 10,100
Mutual funds	725,000	702,300	(22,700)
	<u>\$ 730,900</u>	<u>\$ 718,300</u>	<u>\$ (12,600)</u>
	=====	=====	=====

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

5. Inventories

	2012	2011
	<u> </u>	<u> </u>
Raw materials	\$1,146,800	\$1,051,300
Work-in-process	221,900	408,200
Finished goods	245,000	180,300
	<u>\$1,613,700</u>	<u>\$1,639,800</u>
	=====	=====

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

6. Property and Equipment

	Useful Lives (Years)	2012	2011
	<u> </u>	<u> </u>	<u> </u>
Automobiles	5	\$ 14,900	\$ 21,000
Computer equipment	3-5	125,600	123,400
Machinery and equipment	3-7	602,500	542,800
Furniture and fixtures	4-10	183,200	172,500
Leasehold improvements	3-5	66,900	64,100
		<u>993,100</u>	<u>923,800</u>
Less accumulated depreciation and amortization		812,600	748,700
		<u>\$ 180,500</u>	<u>\$ 175,100</u>
		=====	=====

Depreciation expense was \$70,000 and \$77,000 for the years ended June 30, 2012 and 2011, respectively.

7. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisition of Altamira and SBI's acquisition of assets. Goodwill amounted to \$589,900 and \$447,900 at June 30, 2012 and June 30, 2011, all of which is expected to be deductible for tax purposes.

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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7. Goodwill and Other Intangible Assets (Continued)

The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2012:				
Technology, trademarks	5/10 yrs.	\$ 864,000	\$ 339,300	\$ 524,700
Customer relationships	10 yrs.	237,000	192,100	44,900
Sublicense agreements	10 yrs.	294,000	18,400	275,600
Non-compete agreements	5 yrs.	120,000	104,300	15,700
Other intangible assets	5 yrs.	143,900	127,500	16,400
		\$1,658,900	\$ 781,600	\$ 877,300
		=====	=====	=====

	Useful Lives	Cost	Accumulated Amortization	Net
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 agreements	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 \$115,900 and \$111,400 in 2012 and 2011.

Estimated future amortization expense of intangible assets is as follows:

Fiscal Years

2013	\$ 112,700
2014	108,800
2015	105,200
2016	109,400
2017	93,800
Thereafter	347,400
	\$ 877,300
	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

8. Loan Payable, Bank

The Company has a line of credit with JPMorgan Chase Bank, N.A. (the "Bank"), which provides for maximum borrowings of up to \$700,000, bearing interest at 3.08 percentage points above a defined LIBOR Index, and 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 Note. The Company did not have any amounts outstanding under the line at June 30, 2012 and 2011.

9. Employee Benefit Plans

The Company has 401(k) profit sharing plans covering its employees, which provide for voluntary employee salary contributions not to exceed the statutory limitations provided by the Internal Revenue Code. One plan provides for Company matching of 50% of each Benchtop Laboratory Equipment Operations participant's salary deferral election, up to a maximum amount for each participant of 2% of their compensation, while the second plan provides for matching the Catalyst Research Instrument Operations employee contributions up to 4% of their compensation. Total matching contributions amounted to \$34,800 and \$39,300 for the years ended June 30, 2012 and 2011, respectively.

10. Commitments and Contingencies

The Company is obligated through January 2015 under a noncancelable operating lease for its Bohemia, New York premises, which requires minimum annual rental payments plus other expenses, including real estate taxes and insurance. The future minimum annual rental expense, computed on a straight-line basis, is approximately \$209,400 under the terms of the lease. Rental expense for the Bohemia facility amounted to approximately \$233,600 in 2012 and \$233,700 in 2011. Accrued rent, payable in future years, amounted to \$59,800 and \$67,500 at June 30, 2012 and 2011.

The Company was also obligated under an operating lease for its facility in Pittsburgh, Pennsylvania. The lease expired on July 31, 2011 and the Company is currently on a month-to-month tenancy while negotiating a new lease agreement. Total rental expense for the Pittsburgh facility was \$56,000 in each of 2012 and 2011, plus \$17,000 of related occupancy expenses in 2012 and none in 2011.

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AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

10. Commitments and Contingencies (Continued)

The Company's approximate future minimum rental payments under all operating leases are as follows:

Fiscal Years	Total
2013	\$ 216,400
2014	234,800
2015	140,100
	<hr/>
	\$ 591,300
	=====

The Company has two year employment contracts with its President and Executive Vice President through June 30, 2013, providing for annual base salaries of \$138,000 and \$126,300, respectively for the fiscal year ended June 30, 2012 and \$141,000 and \$129,000, respectively, for the fiscal year ending June 30, 2013, plus discretionary performance bonus for each of the fiscal years for both officers. No bonuses have been awarded for the year ended June 30, 2012. The Board of Directors awarded bonuses of \$4,000, to the President, and \$3,000 to the Executive President for the year ended June 30, 2011.

The Company has an employment contract with the President of Altamira through June 30, 2014, which may be extended by mutual consent for an additional year. The contract provides for an annual base salary of \$131,000 and \$135,000 for each of the fiscal years ending June 30, 2013 and 2014, respectively, plus discretionary bonuses. No bonuses were awarded for the fiscal year ended June 30, 2012, except for a stock option granted during the year in connection with his services provided with respect to the new subsidiary, SBI, valued at \$5,600 using the Black-Scholes-Merton option pricing model. A bonus of \$5,000 was paid in the fiscal year ended June 30, 2011 for his services during the twelve month period ended November 30, 2010 under the previous contract.

The Company has a consulting agreement which expires on December 31, 2012 with an affiliate of the Chairman of the Board of Directors for marketing consulting services. The agreement provides that the consultant be paid a monthly fee of \$3,300 for a certain number of consulting days as defined in the agreement. Stock options were granted to him valued at \$10,000 and \$15,300 during each of the years ended June 30, 2012 and 2011, respectively. Consulting expense related to this agreement amounted to \$42,800 and \$52,200 for the years ended June 30, 2012 and 2011, respectively.

The Company has a consulting agreement which expires March 31, 2013 with another member of its Board of Directors for administrative services providing that the consultant be paid at the rate of \$85 per hour. Consulting expense related to this agreement amounted to \$5,100 and \$9,000 for the fiscal years ended June 30, 2012 and 2011, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

11. Income Taxes

The reconciliation of the provision for income taxes at the federal statutory rate of 15% and 35%, respectively, to the actual tax expense for the applicable fiscal year was as follows:

	2012		2011	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Computed "expected" income tax	\$ 9,300	15.0%	\$107,500	35.0%
Research and development credits	(11,300)	(18.3)	(15,000)	(4.9)
Other, net	(2,200)	(3.5)	(12,900)	(4.2)
Income tax expense (benefit)	<u>\$(4,200)</u>	<u>(6.8)%</u>	<u>\$ 79,600</u>	<u>25.9%</u>
	=====	=====	=====	=====

Deferred tax assets and liabilities consist of the following:

	2012	2011
Deferred tax assets:		
Amortization of intangibles	\$ 149,700	\$ 130,500
Various accruals	44,800	48,200
Other	55,100	55,200
	<u>249,600</u>	<u>233,900</u>
Deferred tax liability:		
Depreciation of property and amortization of goodwill	(43,400)	(40,400)
Net deferred tax assets	<u>\$ 206,200</u>	<u>\$ 193,500</u>
	=====	=====

The breakdown between current and long-term deferred tax assets and liabilities is as follows:

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	2012	2011
	<hr/>	<hr/>
Current deferred tax assets	\$ 70,200	\$ 77,700
Long-term deferred tax assets	179,400	156,200
Long-term deferred tax liabilities	(43,400)	(40,400)
Net long-term deferred tax asset	<hr/> 136,000	<hr/> 115,800
Net deferred tax assets	<hr/> \$ 206,200	<hr/> \$ 193,500
	=====	=====

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SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

11. Income Taxes (Continued)

ASC No. 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC No. 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of June 30, 2012 and 2011, the Company did not have any unrecognized tax benefits related to various federal and state income tax matters.

The Company's policy is to recognize interest and penalties on any unrecognized tax benefits as a component of income tax expense. The Company does not have any accrued interest or penalties associated with any unrecognized tax benefits. The Company is subject to U.S. federal income tax, as well as various state jurisdictions. The Company is currently open to audit under the statute of limitations by the federal and state jurisdictions for the years ending June 30, 2009 through 2011. The Company does not anticipate any material amount of unrecognized tax benefits within the next 12 months.

12. Stock Options

Option activity is summarized as follows:

Fiscal 2012	Fiscal 2011
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	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Shares under option:				
Outstanding, beginning of year	57,000	\$ 2.45	45,000	\$ 2.24
Granted	15,000	3.54	12,000	3.21
Exercised	(4,000)	2.40	-	-
Forfeited	(8,000)	2.40	-	-
Outstanding, end of year	60,000	2.73	57,000	2.45
Options exercisable at year-end	52,833	\$ 2.62	52,833	\$ 2.40
Weighted average fair value per share of options granted during fiscal 2012 and 2011		\$ 1.04		\$ 1.66

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12. Stock Options (Continued)

SCIENTIFIC INDUSTRIES, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

Range Exercise Prices	As of June 30, 2012 Options Outstanding			As of June 30, 2012 Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number Outstanding	Weighted- Average Exercise Price
\$1.25-\$1.88	20,000	1.54	\$ 1.59	20,000	\$ 1.59
\$3.07-\$3.71	40,000	4.72	\$ 3.30	32,833	\$ 3.25
	60,000			52,833	

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As of June 30, 2011
Options Outstanding

As of June 30, 2011
Exercisable

Range Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number Outstanding	Weighted- Average Exercise Price
\$1.25-\$2.40	32,000	1.77	\$ 1.89	32,000	\$ 1.89
\$3.07-\$3.24	25,000	4.94	\$ 3.16	20,833	\$ 3.17
	<u>57,000</u>			<u>52,833</u>	

13. Earnings Per Common Share

Earnings per common share data was computed as follows:

	2012	2011
Net income	<u>\$ 66,100</u>	<u>\$ 227,600</u>
Weighted average common shares outstanding	1,283,118	1,196,577
Effect of dilutive securities	10,471	16,905
Weighted average dilutive common shares outstanding	<u>1,293,589</u>	<u>1,213,482</u>
Basic earnings per common share	\$.05	\$.19
Diluted earnings per common share	\$.05	\$.19

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