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SCIENTIFIC INDUSTRIES INC
Form 10-Q
November 14, 2012

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For quarterly period ended September 30, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

04-2217279

(State or other jurisdiction
of incorporation or
organization)

(IRS Employer Identification No.)

70 Orville Drive, Bohemia, New York

11716

(Address of principal executive offices)

(Zip Code)

(631) 567-4700

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer

Accelerated Filer

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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 Exchange Act).

Yes No

The number of shares outstanding of the issuer's common stock par value, \$0.05 per share, as of October 26, 2012 was 1,335,712 shares.

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PART I-FINANCIAL INFORMATION

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Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2012	June 30, 2012
Current Assets:	(Unaudited)	
Cash and cash equivalents	\$ 748,600	\$ 769,300
Investment securities	730,000	718,300
Trade accounts receivable, net	639,100	623,500
Inventories	1,748,300	1,613,700
Prepaid expenses and other current assets	150,400	167,800
Deferred taxes	70,600	70,200
Total current assets	4,087,000	3,962,800
Property and equipment at cost, net	182,400	180,500
Intangible assets, net	850,600	877,300
Goodwill	589,900	589,900
Other assets	25,600	25,700
Deferred taxes	130,600	136,000
Total assets	\$5,866,100	\$5,772,200

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 178,700	\$ 114,800
Customer advances	200,900	98,500
Notes payable, current	76,400	75,800
Accrued expenses and taxes	233,000	237,500
Contingent consideration payable, current	19,000	19,000
Dividends payable	40,100	-
Total current liabilities	748,100	545,600
Contingent consideration payable, less current portion	88,400	88,400
Notes payable, less current portion	85,700	105,000
Total liabilities	922,200	739,000
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,355,514 issued and outstanding at September 30, and June 30, 2012	67,800	67,800
Additional paid-in capital	1,972,100	1,968,700
Accumulated other comprehensive loss	(3,000)	(12,600)
Retained earnings	2,959,400	3,061,700
Total shareholders' equity	4,996,300	5,085,600
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400

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Total shareholders' equity	4,943,900	5,033,200
Total liabilities and shareholders' equity	<u>\$5,866,100</u>	<u>\$5,772,200</u>
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended September 30,	
	2012	2011
Net sales	\$1,351,700	\$1,541,000
Cost of sales	887,300	937,000
Gross profit	<u>464,400</u>	<u>604,000</u>
Operating Expenses:		
General and administrative	279,600	290,900
Research and development	120,100	46,900
Total operating expenses	<u>556,100</u>	<u>526,800</u>
Income (loss) from operations	<u>(91,700)</u>	<u>77,200</u>
Other income (expense):		
Investment income	2,900	3,600
Other income	2,500	3,200
Interest expense	<u>(1,400)</u>	<u>-</u>
Total other income	<u>4,000</u>	<u>6,800</u>
Income (loss) before income tax expense (benefit)	<u>(87,700)</u>	<u>84,000</u>
Income tax expense (benefit):		
Current	(30,600)	21,200
Deferred	5,100	3,400
Total income (loss) tax expense (benefit)	<u>(25,500)</u>	<u>24,600</u>
Net income (loss)	<u>(\$ 62,200)</u>	<u>\$ 59,400</u>
Basic earnings (loss) per common share	=====	=====
	(\$.05)	\$.05

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	=====	=====
Diluted earnings (loss) per common share	(\$.05)	\$.05
	=====	=====
Cash dividends declared per common share	\$.03	\$.05
	=====	=====

See notes to unaudited condensed consolidated financial statements

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Three Month Periods Ended September 30,	
	2012	2011
	-----	-----
Net income (loss)	(\$62,200)	\$59,400
Other comprehensive income (loss):		
Unrealized holding gain (loss) arising during period, net of tax	9,600	(900)
	-----	-----
Comprehensive income (loss)	(\$52,600)	\$58,500
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

For the Three Month Periods Ended
Sept. 30, 2012 Sept. 30, 2011

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Operating activities:		
Net income (loss)	(\$ 62,200)	\$ 59,400
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	44,300	47,100
Deferred income taxes	5,100	3,400
Stock-based compensation	3,400	600
Changes in operating assets and liabilities:		
Accounts receivable	(15,600)	(232,600)
Inventories	(134,600)	47,200
Prepaid expenses and other current assets	17,400	48,800
other assets	100	-
Accounts payable	63,900	(21,300)
Customer advances	102,400	-
Accrued expenses and taxes	(4,400)	(18,200)
Total adjustments	82,000	125,000
Net cash provided by (used in) operating activities	19,800	(65,600)
Investing activities:		
Purchase of investment securities, available-for-sale	(2,300)	(2,900)
Capital expenditures	(17,400)	(54,900)
Purchases of intangible assets	(2,100)	(1,300)
Net cash used in investing activities	(21,800)	(59,100)
Financing activities:		
Principal payments on note payable	(18,700)	-
Net decrease in cash and cash equivalents	(20,700)	(124,700)
Cash and cash equivalents, beginning of period	769,300	907,800
Cash and cash equivalents, end of period	\$ 748,600	\$ 783,100
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ -	\$ 1,500
Interest	1,400	-

See notes to unaudited condensed consolidated financial statements

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and that they are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended June 30, 2012. The results for the three months ended September 30, 2012, are not necessarily an indication of the results for the full fiscal year ending June 30, 2013.

1. Summary of significant accounting policies:

Principles of consolidation:

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

2. New Accounting Pronouncements:

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU No. 2012-02"), which allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU No. 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test. Otherwise, the quantitative impairment test is not required. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of the provisions of ASU No. 2012-02 is not expected to have a material impact on the Company's financial position or results of operations.

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3. 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, estimated at a present value of \$128,000 on the date of acquisition.

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
	<hr/>
Total Purchase Price	\$1,018,000
	=====

*See Note 8, "Goodwill and Other Intangible Assets".

The amounts allocated to Technology, Trademarks, and IPR&D and Sublicense Agreements are deemed to have a useful life of 10 years, and to the remaining intangible assets to have a useful life of 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 to bear 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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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 July 1, 2011 (the beginning of the period 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 period presented.

	For the Three Month Period Ended September 30,
	2011
Net sales	\$1,578,500
Net income	\$ 27,100
Net income per share - basic	\$.02
Net income per share - diluted	\$.02

4. 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"), 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") and the marketing and production of bioprocessing systems for laboratory research in the biotechnology industry sold directly to customers and through distributors ("Bioprocessing Systems").

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Segment information is reported as follows:

Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Three months ended September 30, 2012:				

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Net Sales	\$1,064,900	\$ 284,200	\$ 2,600	\$ -	\$1,351,700
Foreign Sales	621,700	239,200	-	-	860,900
Profit (Loss)	117,600	(134,300)	(75,000)	-	(91,700)
Assets	2,556,900	987,000	801,000	1,521,200	5,866,100
Long-Lived Asset					
Expenditures	2,100	17,400	-	-	19,500
Depreciation and					
Amortization	11,100	9,300	23,900	-	44,300

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Three months ended September 30, 2011:					
Net Sales	\$1,075,200	\$ 465,800	\$ -	\$ -	\$1,541,000
Foreign Sales	608,700	112,600	-	-	721,300
Profit (Loss)	135,800	(58,600)	-	-	77,200
Assets	2,621,100	1,078,300	-	1,333,400	5,032,800
Long-Lived Asset					
Expenditures	8,200	46,700	-	-	54,900
Depreciation and					
Amortization	11,800	35,300	-	-	47,100

Approximately 61% and 63% of net sales of benchtop laboratory equipment for the three month periods ended September 30, 2012 and 2011, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two customers accounted in the aggregate for approximately 22% and 20% of the net sales of the Benchtop Laboratory Equipment Operations and 17% and 14% of the consolidated sales for the three months ended September 30, 2012, and 2011, respectively. Sales of catalyst research instruments generally comprise a few very large orders averaging at least \$100,000 per order to a limited number of customers, who differ from order to order. Sales to five and three customers represented approximately 97% and 91% of the Catalyst Research Instrument Operations' net sales, respectively, and 17% and 28% of the consolidated sales for the three months ended September 30, 2012 and 2011, respectively.

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

5. Fair Value of Financial Instruments:

The FASB defines the fair value of financial instruments as the amount that would be received to sell an asset or paid to transfer a

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liability in an orderly transaction between market participants at the measurement date. Fair value measurements do not include transaction costs.

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

Level 1 Inputs that are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

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

The following tables set forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis at September 30, 2012 and June 30, 2012 according to the valuation techniques the Company used to determine their fair values:

Fair Value Measurements Using Inputs Considered as

Assets:

	Fair Value at September 30, 2012	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 748,600	\$ 748,600	\$ -	\$ -
Available for sale securities	730,000	730,000	-	-
Total	\$1,478,600	\$1,478,600	\$ -	\$ -

Liabilities:

Contingent consideration	\$ 107,400	\$ -	\$ -	\$107,400
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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	\$ -	\$ -

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	=====	=====	=====	=====
Liabilities:				
Contingent consideration	\$ 107,400	\$ -	\$ -	\$107,400
	=====	=====	=====	=====

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

	Cost	Fair Value	Unrealized Holding Gain (Loss)
	-----	-----	-----
At September 30, 2012:			
Available for sale:			
Equity securities	\$ 5,900	\$ 16,400	\$ 10,500
Mutual funds	727,100	713,600	(13,500)
	-----	-----	-----
	\$ 733,000	\$ 730,000	\$ (3,000)
	=====	=====	=====

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

6. Inventories:

Inventories for financial statement purposes are based on perpetual inventory records at September 30, 2012 and based on a physical count as of June 30, 2012. Components of inventory are as follows:

	September 30, 2012	June 30, 2012
	-----	-----
Raw Materials	\$1,291,600	\$1,146,800
Work in process	248,400	221,900
Finished Goods	208,300	245,000

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\$1,748,300	\$1,613,700
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7. Earnings (Loss) per common share:

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

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

	For the Three Month Periods Ended September 30,	
	2012	2011
Net income (loss)	(\$ 62,200)	\$ 59,400
Weighted average common shares outstanding	1,335,712	1,196,577
Dilutive securities	-	14,924
	1,335,712	1,211,501
Basic earnings (loss) per common share	(\$.05)	\$.05
Diluted earnings (loss) per common share	(\$.05)	\$.05

Approximately 60,000 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted loss per common share for the three month period ended September 30, 2012, because the effect would be anti-dilutive due to the loss for the period.

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

8. 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 as of September 30, 2012 and June 30, 2012, all of which is expected to be deductible for tax purposes.

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The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At September 30, 2012:				
Technology, trademarks	5/10 yrs.	\$ 864,000	\$ 354,900	\$ 509,100
Customer relationships	10 yrs.	237,000	195,400	41,600
Sublicense agreements	10 yrs.	294,000	25,700	268,300
Non-compete agreements	5 yrs.	120,000	105,200	14,800
Other intangible assets	5 yrs.	146,000	129,200	16,800
		\$1,661,000	\$ 810,400	\$ 850,600

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	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

Total amortization expense was \$28,800 and \$28,300 for the three months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, estimated future amortization expense related to intangible assets is \$85,500 for the remainder of the fiscal year ending June 30, 2013, \$108,800 for fiscal 2014, \$105,200 for fiscal 2015, \$109,400 for fiscal 2016, \$93,800 for fiscal 2017, and \$347,900 thereafter.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis or Plan of Operations

Certain statements contained in this report are not based on historical facts,

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but are forward-looking statements that are based upon various assumptions about future conditions. Actual events in the future could differ materially from those described in the forward-looking information. Numerous unknown factors and future events could cause such differences, including but not limited to, product demand, market acceptance, impact of competition, the ability to reach final agreements, the ability to finance and produce to customers' specifications catalyst research instruments, and to develop marketable bioprocessing systems, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control. Consequently, no forward-looking statement can be guaranteed.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$20,700 to \$748,600 as of September 30, 2012 from \$769,300 as of June 30, 2012.

Net cash provided by operating activities was \$19,800 for the three months ended September 30, 2012 as compared to cash used by operating activities of \$65,600 for the comparable three month period in 2011, due mainly to the lower accounts receivable balances generated in the current period compared to the prior period and advances received during the three months ended September 30, 2012 from customers for catalyst research instrument orders received in the current period. Cash used in investing activities was \$21,800 for the three month period ended September 30, 2012 compared to \$59,100 for the three month period ended September 30, 2011 due primarily to decreased capital expenditures. Cash used in financing activities was \$18,700 for the three months ended September 30, 2012 related to a loan in connection with the recent acquisition.

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.

The Company's working capital decreased by \$78,300 to \$3,338,900 at September 30, 2012 from \$3,417,200 at June 30, 2012, mostly due to the net loss for the current three month period.

The Company has a line of credit with its bank, JPMorgan Chase Bank, N.A. which provides for maximum borrowings of up to \$700,000, to bear interest at 3.08 percentage points above a defined LIBOR Index. The interest rate as of September 30, 2012 was approximately 3.32% and the borrowing is to be secured by a pledge of collateral consisting of the inventory, accounts, chattel paper, equipment and general intangibles of the Company. Outstanding amounts are due and payable by June 13, 2013 with a requirement that the Company is to reduce the outstanding principal balance to zero during the 30 day period ending on the anniversary date of the promissory note. As of September 30, 2012 and June 30, 2012, no borrowings under the line were outstanding.

Management believes that the Company will be able to meet its cash flow needs during the next 12 months from its available financial resources which include

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its cash and investment securities.

Results of Operations

Financial Overview

The Company recorded a loss before income tax benefit of \$87,700 for the three month period ended September 30, 2012 compared to income before income taxes of \$84,000 for the comparative prior fiscal year period, primarily as a result of the increased loss of the Catalyst Research Instruments Operations and the loss generated by the new Bioprocessing Systems business, which has yet to generate meaningful product sales.

The Three Months Ended September 30, 2012 Compared With the Three Months Ended September 30, 2011

Net sales for the three months ended September 30, 2012 decreased by \$189,300 (12.3%) to \$1,351,700 from \$1,541,000 for the three months ended September 30, 2011, primarily as a result of a \$181,600 decrease in catalyst research instrument sales for the quarter. Sales of catalyst research instruments are sold pursuant to a small number of larger orders, typically averaging over \$100,000 each, resulting in significant swings in revenues. Sales of benchtop laboratory products decreased slightly by \$10,300 compared to the same period last year. The Bioprocessing Systems Operations generated approximately \$2,600 in revenues from sales of small parts, but is expected to generate future sales from products currently under development, although no assurance can be given. The backlog of orders for catalyst research instruments was \$1,240,000 as of September 30, 2012, substantially all of which is expected to be delivered by fiscal year end, as compared to the backlog as of September 30, 2011 of \$268,000.

The gross profit percentage for the three months ended September 30, 2012 decreased to 34.4% compared to 39.2% for the three months ended September 30, 2012, due primarily to higher material costs for the Benchtop Laboratory Equipment Operations and fixed overhead costs for the Catalyst Research Instruments Operations on decreased sales.

General and administrative expenses for the three months ended September 30, 2012 decreased by \$11,300 (3.9%) to \$279,600 from \$290,900 for the three months ended September 30, 2011, primarily due to acquisition costs of the Bioprocessing Systems Operations which were incurred in the three month period ended September 30, 2011.

Selling expenses for the three months ended September 30, 2012 decreased \$32,600 (17.2%) to \$156,400 from \$189,000 for the three months ended September 30, 2011, primarily the result of decreased sales commissions for the Catalyst Research Instruments Operations.

Research and development expenses for the three months ended September 30, 2012 increased by \$73,200 (156.1%) to \$120,100 from \$46,900 for the three months ended September 30, 2011, primarily the result of product development costs related to the new Bioprocessing Systems Operations, and increased development activity by the Benchtop Laboratory Equipment Operations.

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Other income decreased to \$4,000 for the three months ended September 30, 2012 from \$6,800 for the prior year period, mainly due to the interest expense incurred by the new Bioprocessing Systems Operations.

As a result of the loss for the three months ended September 30, 2012, the Company recorded an income tax benefit of \$25,500 compared to income tax expense of \$24,600 for the three months ended September 30, 2011.

The result of the foregoing was a net loss for the three months ended September 30, 2012 of \$62,200 compared to net income of \$59,400 for the three months ended September 30, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Chief Executive and Chief Financial Officer of the Company has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms. The Company also concluded that information required to be disclosed in such reports is accumulated and communicated to the Company's management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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Part II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Number:	Description
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(b) Reports on Form 8-K:

None

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

SIGNATURE

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

Scientific Industries, Inc.
Registrant

/s/ Helena R. Santos

Helena R. Santos
President, Chief Executive Officer
and Treasurer
Principal Executive, Financial and
Accounting Officer

Date: November 14, 2012

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