SCIENTIFIC INDUSTRIES INC
Form 10-Q
February 14, 2013

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

FORM 10-Q

(Mark One)
X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended December 31, 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), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

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

Large accelerated filer___________ Accelerated Filer_________

Non-accelerated filer_____________ Smaller reporting company [X]
(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 [X] No

The number of shares outstanding of the issuer's common stock par value, $0.05 per share, as of February 4, 2013 was 1,337,663 shares.

TABLE OF CONTENTS

PART I-FINANCIAL INFORMATION
Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2012 (Unaudited)	June 30, 2012
Current Assets:		
Cash and cash equivalents	$ 670,400	$ 769,300
Investment securities	720,100	718,300
Trade accounts receivable, net	942,800	623,500
Inventories	1,834,700	1,613,700
Prepaid expenses and other current assets	86,200	167,800
Deferred taxes	70,300	70,200
Total current assets	4,324,500	3,962,800
Property and equipment at cost, net	174,000	180,500
Intangible assets, net	822,100	877,300
Goodwill	589,900	589,900
Other assets	24,100	25,700
Deferred taxes	125,400	136,000
Total assets	$6,060,000	$5,772,200

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2012 (Unaudited)	June 30, 2012
Current Liabilities:		
Accounts payable	$ 142,300	$ 114,800
Customer advances	356,400	98,500
Notes payable, current	77,100	75,800
Accrued expenses and taxes	221,800	237,500
Contingent consideration payable, current	19,000	19,000
Total current liabilities	816,600	545,600
Contingent consideration payable, less current portion	88,400	88,400
Notes payable, less current portion	66,100	105,000
Total liabilities	971,100	739,000
Shareholders' equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; 1,357,465 issued and outstanding at		

December 31, 2012 and 1,355,514 at June 30, 2012	67,900	67,800
Additional paid-in capital	1,975,300	1,968,700
Accumulated other comprehensive income (loss)	300	(12,600)
Retained earnings	3,097,800	3,061,700
	5,141,300	5,085,600
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	5,088,900	5,033,200
Total liabilities and shareholders' equity	$6,060,000	$5,772,200

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2012	2011	2012	2011
Net sales	$1,876,900	$1,197,600	$3,228,600	$2,738,500
Cost of sales	1,046,600	707,200	1,934,000	1,644,200
Gross profit	830,300	490,400	1,294,600	1,094,300
Operating Expenses:				
General & administrative	309,600	335,100	589,200	626,100
Selling	191,100	160,100	347,400	349,000
Research & development	135,100	78,700	255,200	125,500
Total operating expenses	635,800	573,900	1,191,800	1,100,600
Income (loss) from operations	194,500	(83,500)	102,800	(6,300)
Other income (expense):				
Investment income	3,100	3,500	5,900	7,100
Other	(1,600)	2,700	900	5,900
Interest expense	(1,300)	(1,200)	(2,700)	(1,200)
Total other income	200	5,000	4,100	11,800
Income (loss) before income taxes (benefit)	194,700	(78,500)	106,900	5,500

Income tax expense (benefit):				
Current	51,800	(21,800)	21,200	(500)
Deferred	4,500	(1,400)	9,500	2,000
Total income (loss) tax expense (benefit)	56,300	(23,200)	30,700	1,500
Net income (loss)	$ 138,400	($ 55,300)	$ 76,200	$ 4,000
Basic earnings (loss) per common share	$ .10	$ (.04)	$ .06	$ .00
Diluted earnings (loss) per common share	$ .10	$ (.04)	$ .06	$ .00
Cash dividends declared per common share	$ .00	$ .00	$ .03	$ .05

See notes to unaudited condensed consolidated financial statements

2

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2012	2011	2012	2011
Net income (loss)	$138,400	($ 55,300)	$ 76,200	4,000
Other comprehensive income:				
Unrealized holding gain arising during period, net of tax	3,300	2,300	12,900	1,400
Comprehensive income (loss)	$141,700	($ 53,000)	$ 89,100	$ 5,400

See notes to unaudited condensed consolidated financial statements

3

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

	For the Six Month Periods Ended December 31, 2012	December 31, 2011
Operating activities:		
Net income	$ 76,200	$ 4,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss on sale of investments	4,800	-
Depreciation and amortization	89,000	99,300
Deferred income tax	9,500	2,000
Stock-based compensation	6,700	1,000
Changes in operating assets and liabilities:		
Accounts receivable	(319,300)	(40,100)
Inventories	(221,000)	(315,600)
Prepaid expenses and other current assets	81,600	20,000
Accounts payable	27,500	112,900
Customer advances	257,900	326,900
Accrued expenses and taxes	(15,700)	(23,200)
Other assets	1,600	-
Total adjustments	(77,400)	183,200
Net cash provided by (used in) operating activities	(1,200)	187,200
Investing activities:		
Intangible assets acquired in acquisition	-	(260,000)
Purchase of investment securities, available-for-sale	(710,300)	(5,500)
Capital expenditures	(25,200)	(61,900)
Purchase of intangible assets, other	(2,100)	(1,600)
Redemption of investment securities, available for sale	717,600	-
Net cash used in investing activities	(20,000)	(329,000)
Financing activities:		
Line of credit proceeds	-	60,000
Proceeds from exercise of stock options	-	9,600
Cash dividend declared and paid	(40,100)	(59,900)
Principal payments on note payable	(37,600)	(12,200)
Net cash used in financing activities	(77,700)	(2,500)
Net decrease in cash and cash equivalents	(98,900)	(144,300)
Cash and cash equivalents, beginning of year	769,300	907,800
Cash and cash equivalents, end of period	$ 670,400	$ 763,500

Supplemental disclosures:

Cash paid during the period for:		
Income taxes	$ -	$ 3,300
Interest	2,700	-

See notes to unaudited condensed consolidated financial statements

4

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission?s rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and that they are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended June 30, 2012. The results for the three and six months ended December 31, 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.

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 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	$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.

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 prior periods 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 December 31,	For the Six Month Period Ended December 31,
	2011	2011
Net sales	$1,235,100	$2,813,500
Net income (loss)	($ 40,700)	$ 6,300
Net income (loss) per share - basic	($.03)	$.00
Net income (loss) per share - diluted	($.03)	$.00

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").

7

Segment information is reported as follows (foreign sales are principally to customers in Europe and Asia):

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Three months ended December 31, 2012:					
Net Sales	$1,164,900	$ 664,900	$ 47,100	$ -	$1,876,900
Foreign Sales	747,900	279,800	-	-	1,027,700
Profit(Loss)	157,200	68,200	(30,900)	-	194,500
Assets	2,485,700	1,695,400	963,100	915,800	6,060,000
Long-Lived Asset Expenditures	7,100	700	-	-	7,800
Depreciation and Amortization	11,500	9,200	24,000	-	44,700

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Three months ended December 31, 2011:					
Net Sales	$1,108,500	$ 89,100	$ -	$ -	$1,197,600
Foreign Sales	755,100	8,400	-	-	763,500
Profit(Loss)	100,200	(117,800)	(32,300)	(33,600)	(83,500)
Assets	2,467,600	1,375,700	866,600	1,481,800	6,191,700
Long-Lived Asset Expenditures	4,500	2,800	876,000	-	883,300
Depreciation and Amortization	12,300	27,800	12,000	-	52,100

Approximately 73% and 63% of net sales of benchtop laboratory equipment (46% and 59% of total net sales) for the three month periods ended December 31, 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 24% and 26% of the net sales of the Benchtop Laboratory Equipment Operations and 15% and 24% of total net sales for the three months ended December 31, 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 four customers and one customer represented approximately 95% and 73% of the Catalyst Research Instrument Operations' net sales, respectively, and 34% and 25% of total net sales for the three months ended December 31, 2012 and 2011, respectively.

8

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Six months ended December 30, 2012:					
Net Sales	$2,229,700	$ 949,200	$ 49,700	$ -	$3,228,600
Foreign Sales	1,369,600	519,000	-	-	1,888,600
Profit(Loss)	274,800	(66,100)	(105,900)	-	102,800
Assets	2,485,700	1,695,400	963,100	915,800	6,060,000
Long-Lived Asset Expenditures	9,200	18,100	-	-	27,300
Depreciation and Amortization	22,600	18,500	47,900	-	89,000

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Six months ended December 31, 2011:					
Net Sales	$2,183,600	$ 554,900	$ -	$ -	$2,738,500
Foreign Sales	1,363,700	121,100	-	-	1,484,800
Profit(Loss)	260,600	(176,400)	(32,300)	(58,200)	(6,300)
Assets	2,467,600	1,375,700	866,600	1,481,800	6,191,700
Long-Lived Asset Expenditures	14,000	49,500	876,000	-	939,500
Depreciation and Amortization	24,300	63,000	12,000	-	99,300

Approximately 68% and 63% of net sales of benchtop laboratory equipment (47% and 50% of total net sales) for the six month periods ended December 31, 2012 and 2011, respectively, were derived from the segment's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two benchtop laboratory equipment customers, accounted in the aggregate for approximately 23% of the segment's net sales for each of the two comparative periods and 16% and 19%, respectively, of total net sales for the six month periods ended December 31, 2012 and 2011.

Sales of catalyst research instruments to four different customers in each of the six month periods, accounted for approximately 67% and 88% of the segment's net sales and 20% and 18% of total net sales for the six month period ended December 31, 2012 and 2011, respectively.

5. Fair Value of Financial Instruments:

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

The accounting guidance also expands the disclosure requirements around fair value and establishes a fair value hierarchy of valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are 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 December 31, 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 December 31, 2012	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 670,400	$ 670,400	$ -	$ -
Available for sale securities	720,100	720,100	-	-
Total	$1,390,500	$1,390,500	$ -	$ -
Liabilities:				
Contingent consideration	$ 107,400	$ -	$ -	$107,400

		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

Investments in marketable securities classified as available-for-sale by security type at December 31, 2012 and June 30, 2012 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At December 31, 2012:			
Available for sale:			
Equity securities	$ 31,800	$ 31,100	$ (700)
Mutual funds	688,000	689,000	1,000
	$ 719,800	$ 720,100	$ 300

	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 December 31, 2012 and based on a physical count as of June 30, 2012. Components of inventory are as follows:

	December 31, 2012	June 30, 2012
Raw Materials	$1,297,300	$1,146,800
Work in process	369,900	221,900
Finished Goods	167,500	245,000
	$1,834,700	$1,613,700

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.

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

	For the Three Month Periods Ended December 31,		For the Six Month Period Ended December 31,	
	2012	2011	2012	2011
Net income (loss)	$ 138,400	($ 55,300)	$ 76,200	$ 4,000
Weighted average common shares outstanding	1,337,175	1,265,613	1,336,444	1,231,095
Dilutive securities	3,765	-	4,463	14,873
Weighted average dilutive common shares outstanding	1,340,940	1,265,613	1,340,907	1,245,968
Basic earnings (loss) per common share	$ .10	($ .04)	$ .06	$ .00
Diluted earnings (loss) per common share	$ .10	($ .04)	$ .06	$ .00

Approximately 40,000 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted earnings per common share for each of the three and six month periods ended December 31, 2012, because the effect would be anti-dilutive.

Approximately 57,000 and 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 and six month periods ended December 31, 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 December 31, 2012 and June 30, 2012, all of which is deductible for tax purposes.

The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At December 31, 2012:				
Technology, trademarks	5/10 yrs.	$ 864,000	$ 370,600	$ 493,400

Customer relationships	10 yrs.	237,000	198,400	38,600
Sublicense agreements	10 yrs.	294,000	33,100	260,900
Non-compete agreements	5 yrs.	120,000	106,000	14,000
Other intangible assets	5 yrs.	146,000	130,800	15,200
		$1,661,000	$ 838,900	$ 822,100

	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 $28,600 and $33,000 for the three months ended December 31, 2012 and 2011, respectively and $57,400 and $61,300 for the six months ended December 31, 2012 and 2011, respectively. As of December 31, 2012, estimated future amortization expense related to intangible assets is $56,900 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 $348,000 thereafter.

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

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

Certain statements contained in this report are not based on historical facts, but are forward-looking statements that are based upon various assumptions about future conditions. Actual events in the future could differ materially from those described in the forward-looking information. Numerous unknown factors and future events could cause such differences, including but not limited to, product demand, market acceptance, impact of competition, the ability to reach final agreements, the ability to finance and produce to customers? specifications catalyst research instruments, 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 $98,900 to $670,400 as of December 31, 2012 from $769,300 as of June 30, 2012.

Net cash used in operating activities was $1,200 for the six months ended December 31, 2012 as compared to $187,200 provided by operating activities for the comparable six month period in 2011, due mainly to higher accounts receivable balances outstanding in the current year period compared to the prior period. Cash used in investing activities was $20,000 for the six month period ended December 31, 2012 compared to $329,000 for the six month period ended December 31, 2011, due to the acquisition by SBI of intangible assets in the prior year period. The Company reflected cash used in financing activities of $77,700 in the current year period compared to only $2,000 in the prior year comparable period, because of cash received last year under the line of credit.

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 as compared to $.05 per share paid in the prior fiscal year period.

The Company's working capital increased by $90,700 to $3,507,900 as of December 31, 2012 from working capital of $3,417,200 at June 30, 2012, mainly due to the income for the 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, bearing interest at 3.08 percentage points above a defined LIBOR Index. The interest rate as of December 31, 2012 was approximately 3.32% and any 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 December 31, 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 its cash and investment securities.

Results of Operations

Financial Overview

The Company recorded income before income taxes of $194,700 and $106,900 for the three and six month periods ended December 31, 2012, respectively, compared to a loss before income tax benefit of $78,500 for the year earlier three month period and income before income tax of $5,500 for the year earlier six month period, primarily as a result of higher income derived from increased sales of catalyst research instruments and benchtop laboratory equipment products.

The Three Months Ended December 31, 2012 Compared With the Three Months Ended December 31, 2011

Net sales for the three months ended December 31, 2012 increased by $679,300 (56.7%) to $1,876,900 from $1,197,600 for the three months ended December 31, 2011 as a result of increased sales of $575,800 by the Catalyst Research Instruments Operations and of $56,400 by the Laboratory Equipment Operations, and a $47,100 increase in revenues, mainly royalties of the Bioprocessing Systems Operations. Sales of the benchtop laboratory equipment products generally are pursuant to many small purchase orders from distributors, while 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. The backlog of orders for catalyst research instruments was $1,452,300 as of December 31, 2012, all of which are anticipated to be delivered by fiscal year end; the back log as of December 31, 2011 was $995,000.

The Company's gross profit percentage for the three months ended December 31, 2012 increased to 44.2% from 40.9% for the year earlier three month period primarily as a result of increased catalyst research instrument sales and lower overhead costs for the Benchtop Laboratory Equipment Operations.

General and administrative expenses for the three month comparative periods ended December 31, 2012 and December 31, 2011 decreased by $25,500 (7.6%) to $309,600 from $335,100 primarily due to the expenses related to the asset acquisition by SBI incurred in the prior year period.

Selling expenses for the three months ended December 31, 2012 increased by $31,000 (19.4%) to $191,100 from $160,100 for the three months ended December 31, 2011, primarily the result of commissions paid with respect to the increase in catalyst research instruments sales.

Research and development expenses for the three months ended December 31, 2012 increased $56,400 (71.7%) to $135,100 from $78,700 for the three months ended December 31, 2011, primarily the result of increased product development activity by the Company's Benchtop Laboratory Equipment Operations and new product development by the Bioprocessing Systems Operations.

As a result of the $194,700 income before income taxes for the three months ended December 31, 2012, compared to a $78,500 loss before income tax benefit for the three months ended December 31, 2011, the Company recorded income tax expense of $56,300 compared to income tax benefit of $23,200 for the three months ended December 31, 2011.

The Six Months Ended December 31, 2012 Compared With the Six Months Ended December 31, 2011

Net sales for the six months ended December 31, 2012 increased by $490,100 (17.9%) to $3,228,600 compared to $2,738,500 for the six months ended December 31, 2011, due to increases of $394,300 in catalyst research instrument sales and $46,100 in benchtop laboratory equipment sales, and an increase of $49,700 in revenues, mainly royalties, of the Bioprocessing Systems Operations. Sales of benchtop laboratory equipment products generally are comprised of many small purchase orders from distributors, while sales of catalyst research instruments are comprised of a small number of large orders, typically averaging over $100,000 each, resulting in significant swings in revenues. The backlog of orders for catalyst research instruments was $1,452,300 as of December 31, 2012, all of which are anticipated to be delivered by fiscal year end; the backlog as of December 31, 2011 was $995,000.

General and Administrative expenses decreased by $36,900 (5.9%) to $589,200 for the six months ended December 31, 2012 from $626,100 for the comparable period of the prior year, primarily due to the expenses related to SBI's asset acquisition in November 2011, partially offset by the related amortization expenses in the current year by the Bioprocessing Systems Operations.

Research and development expenses for the six months ended December 31, 2012 increased $129,700 (103.3%) to $255,200 compared to $125,500 for the six months ended December 31, 2011, due to increased new product development activity by the Company's Benchtop Laboratory Equipment Operations and new product development by the Bioprocessing Systems Operations.

Total other income for the six month period ended December 31, 2012 decreased by $7,700 to $4,100 from $11,800 for the six month period ended December 31, 2011, mainly due to interest expense incurred by the Bioprocessing Systems Operations and losses on sales of investment securities.

As a result of the foregoing, income tax expense for the six month period ended December 31, 2012 was $30,700 compared to $1,500 for the comparable period of the prior fiscal year, and net income for the six months ended December 31, 2012 was $76,200 compared to $4,000 for the six months ended December 31, 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.

Part II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Number: Description

Exhibit Number	Description
10(k)-1	Lease agreement between Altamira Instruments, Inc. and Allegheny Homes, LLC with respect to the Company's Pittsburgh, Pennsylvania facilities.
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

Report dated December 4, 2012 reporting under Item 1.01.

17

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: February 14, 2013

18