SCIENTIFIC INDUSTRIES INC
Form 10-Q
November 12, 2015

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 September 30, 2015

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.) |

| 80 Orville Drive, Suite 102, 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 small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer | Accelerated Filer |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company X |

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 October 30, 2015 was 1,489,112 shares.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

| | September 30, 2015 | June 30, 2015 |
|---|---|---|
| Current Assets: (Unaudited) | | |
| Cash and cash equivalents | $ 530,200 | $ 482,000 |
| Restricted cash | 300,000 | 300,000 |
| Investment securities | 277,000 | 281,800 |
| Trade accounts receivable, net | 737,400 | 1,081,700 |
| Inventories | 2,343,800 | 2,213,700 |
| Prepaid expenses and other current assets | 145,300 | 68,600 |
| Deferred taxes | 118,000 | 114,200 |
| Total current assets | 4,451,700 | 4,542,000 |
| Property and equipment at cost, net | 222,800 | 235,200 |
| Intangible assets, net | 1,363,000 | 1,451,900 |
| Goodwill | 705,300 | 705,300 |
| Other assets | 52,500 | 52,500 |
| Deferred taxes | 169,400 | 154,500 |
| Total assets | $6,964,700 | $7,141,400 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | September 30, 2015 | June 30, 2015 |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ 201,100 | $ 227,600 |
| Customer advances | 93,500 | 76,400 |
| Bank line of credit | 200,000 | - |
| Notes payable, current portion | 200,000 | 200,000 |
| Accrued expenses and taxes | 316,800 | 519,900 |
| Contingent consideration, current portion | 128,900 | 106,800 |
| Total current liabilities | 1,140,300 | 1,130,700 |
| Contingent consideration payable, less current portion | 137,300 | 260,300 |
| Total liabilities | 1,277,600 | 1,391,000 |
| Shareholders' equity: | | |
| Common stock, $.05 par value; authorized 7,000,000 shares; 1,508,914 outstanding at September 30, 2015 and June 30, 2015 | 75,400 | 75,400 |
| Additional paid-in capital | 2,487,300 | 2,486,700 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | ( 7,100) | ( 3,300) |
| Retained earnings | 3,183,900 | 3,244,000 |
| | 5,739,500 | 5,802,800 |
| Less common stock held in treasury, at cost, 19,802 shares | 52,400 | 52,400 |
| Total shareholders' equity | 5,687,100 | 5,750,400 |
| Total liabilities and shareholders' equity | $6,964,700 | $7,141,400 |

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, | |
|---|---|---|
| | 2015 | 2014 |
| Revenues | $1,444,500 | $1,662,100 |
| Cost of revenues | 849,400 | 1,161,900 |
| Gross profit | 595,100 | 500,200 |
| Operating expenses: | | |
| General and administrative | 408,200 | 326,500 |
| Selling | 167,000 | 295,300 |
| Research and development | 85,400 | 107,100 |
| Total operating expenses | 660,600 | 728,900 |
| Loss from operations | ( 65,500) | ( 228,700) |
| Other income (expense): | | |
| Investment income | 400 | 800 |
| Other income (expense) | ( 4,700) | 6,200 |
| Interest expense | ( 8,100) | ( 1,200) |
| Total other income (expense), net | ( 12,400) | 5,800 |
| Loss before income tax benefit | ( 77,900) | ( 222,900) |
| Income tax benefit: | | |
| Current | - | ( 57,200) |
| Deferred | ( 17,800) | ( 4,400) |
| Total income tax benefit | ( 17,800) | ( 61,600) |
| Net loss | ($ 60,100) | ($161,300) |
| Basic loss per common share | ($ .04) | ($ .11) |

| | | |
|---|---|---|
| Diluted loss per common share | ($ .04) | ($ .11) |

See notes to unaudited condensed consolidated financial statements

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

| | For the Three Month Periods Ended September 30, 2015 | 2014 |
|---|---|---|
| Net loss | ($ 60,100) | ($161,300) |
| Other comprehensive loss: | | |
| Unrealized holding loss arising during period, net of tax | ( 3,800) | ( 700) |
| Comprehensive loss | ($ 63,900) | ($162,000) |

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, 2015 | Sept. 30, 2014 |
|---|---|---|
| Operating activities: | | |
| Net loss | ($ 60,100) | ($ 161,300) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on sale of investments | - | 1,300 |
| Loss on asset disposal | 2,700 | - |
| Depreciation and amortization | 105,200 | 110,100 |
| Deferred income taxes | ( 17,800) | ( 4,400) |
| Stock-based compensation | 600 | 1,000 |
| Income tax benefit of stock options | | |

| | | |
|---|---|---|
| exercised | - | 4,900 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 344,300 | ( 38,500) |
| Inventories | ( 130,100) | 26,300 |
| Prepaid expenses and other current assets | ( 76,700) | ( 61,600) |
| Other assets | - | ( 25,400) |
| Accounts payable | ( 26,500) | ( 31,500) |
| Customer advances | 17,100 | 3,300 |
| Accrued expenses and taxes | ( 203,100) | ( 83,900) |
| Total adjustments | 15,700 | ( 98,400) |
| Net cash used in operating activities | ( 44,400) | ( 259,700) |
| Investing activities: | | |
| Redemption of investment securities, available-for-sale | - | 75,000 |
| Capital expenditures | ( 6,500) | ( 19,700) |
| Purchases of intangible assets | - | ( 1,100) |
| Net cash provided by (used in) investing activities | ( 6,500) | 54,200 |
| Financing activities: | | |
| Line of credit proceeds | 200,000 | 200,000 |
| Payment of contingent consideration | ( 100,900) | ( 98,900) |
| Proceeds from exercise of stock options | - | 18,800 |
| Principal payments on note payable | ( - ) | ( 20,000) |
| Net cash provided by financing activities | 99,100 | 99,900 |

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, 2015 | Sept. 30, 2014 |
| Net increase (decrease) in cash and cash equivalents | 48,200 | ( 105,600) |
| Cash and cash equivalents, beginning of year` | 482,000 | 493,700 |
| Cash and cash equivalents, end of period | $ 530,200 | $ 388,100 |

| | | |
|---|---|---|
| | ========= | ========== |
| Supplemental disclosures: | | |
| Cash paid during the period for: | | |
| Income Taxes | $ 18,500 | $ 3,500 |
| Interest | 4,400 | 1,200 |

See Note 3 for non-cash investing and financing activities

See notes to unaudited condensed consolidated financial statements



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

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted 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, 2015. The results for the three months ended September 30, 2015, are not necessarily an indication of the results for the full fiscal year ending June 30, 2016.

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 May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with

Customers amending revenue recognition requirements for multiple-deliverable revenue arrangements. This update provides guidance on how revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. This determination is made in five steps: (i) identify the contract with the customer: (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date to fiscal years beginning after December 15, 2018, or the Company's fiscal year ending June 30, 2020, and early adoption of the standard is permitted, but not before the original effective date of December 15, 2017. The Company is evaluating the effect this guidance will have on the consolidated financial statements and related disclosures.
In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved After the Requisite Service Period. This update affects reporting entities that grant their employee's targets that affects vesting could be achieved after



the requisite service period. The new standard requires that a performance target that affects vesting and that could be achieved after the requisite services period be treated as a performance condition. The new standard will be effective for the Company beginning July 1, 2016, and early adoption is permitted. The Company expects the adoption will not have a material impact on its financial condition, results of operations or cash flows.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory: Simplifying the Measurement of Inventory", that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The Company is evaluating the impact that this standard will have on its consolidated financial statements.

3. Acquisition:

On February 26, 2014, the Company acquired substantially all the assets of a privately owned company consisting principally of inventory, fixed assets, and intangible assets related to the production and sale of a variety of laboratory and pharmacy balances and scales. The acquisition was pursuant to an asset purchase agreement whereby the Company paid the sellers $700,000 in cash, 126,449 shares of Common Stock valued at $427,500 and agreed to make additional cash payments based on a percentage of net sales of the business acquired equal to 8% for the period ending June 30, 2014 annualized, 9% for the year ending June 30, 2015, 10% for the year ending June 30, 2016 and 11% for the year ending June 30, 2017, estimated at a present value of $460,000 on the date of acquisition. Payments related to this contingent consideration for each period are due in September following the fiscal year. Contingent consideration payments made amounted to $100,900 and $98,900 during the three months ended September 30, 2015 and 2014, respectively.

The products, which are similar to the Company's other Benchtop Laboratory Equipment, and in many cases used by the same customers, are marketed under the Torbal(R) brand. The principal customers are pharmacies, pharmacy schools, universities, government laboratories, and industries utilizing a precision scale. The products are sold primarily on a direct basis, including through the Company's e-commerce site.

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

| | |
|---|---|
| Current assets | $ 144,000 |
| Property and equipment | 118,100 |
| Goodwill* | 115,400 |
| Other intangible assets | 1,210,000 |
| Total Purchase Price | $1,587,500 |

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

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Of the $1,210,000 of the acquired other intangible assets, $570,000 was assigned to technology and websites with a useful life of 5 years, $120,000 was assigned to customer relationships with an estimated useful life of 9 years, $140,000 was assigned to the trade name with an estimated useful life of 6 years, $110,000 was assigned to the IPR&D with an estimated useful life of 3 years, and $270,000 was assigned to non-compete agreements with an estimated useful life of 5 years.

In connection with the acquisition, the Company entered into a three-year employment agreement with the previous Chief Operating Officer of the acquired business as President of the Company's new Torbal Division and Director of Marketing for the Company. The agreement may be extended by mutual consent for an additional two years.

4. Segment Information and Concentrations:

The Company views its operations as three segments: the manufacture and marketing of standard benchtop laboratory equipment including the balances and scales by its Torbal Scales Division for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors and on a direct basis ("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").

Segment information is reported as follows:

| Benchtop Laboratory | Catalyst Research | Bio-processing | Corporate and | Conso- |
|---|---|---|---|---|

| | Equipment | Instruments | Systems | Other | lidated |
|---|---|---|---|---|---|
| Three months ended September 30, 2015: | | | | | |
| Revenues | $1,263,000 | $ 153,000 | $ 28,500 | $ - | $1,444,500 |
| Foreign Sales | 599,000 | 7,800 | - | - | 606,800 |
| Income (Loss) from Operations | 54,700 | ( 82,000) | ( 30,100) | ( 8,100) | ( 65,500) |
| Assets | 4,056,400 | 1,613,200 | 730,700 | 564,400 | 6,964,700 |
| Long-Lived Asset Expenditures | 6,500 | - | - | - | 6,500 |
| Depreciation and Amortization | 73,800 | 6,900 | 24,500 | - | 105,200 |



| | Benchtop Laboratory Equipment | Catalyst Research Instruments | Bio-processing Systems | Corporate and Other | Conso-lidated |
|---|---|---|---|---|---|
| Three months ended September 30, 2014: | | | | | |
| Revenues | $1,086,400 | $ 551,100 | $ 24,600 | $ - | $1,662,100 |
| Foreign Sales | 411,100 | 443,500 | - | - | 854,600 |
| Loss from Operations | ( 118,100) | ( 70,200) | ( 40,400) | - | ( 228,700) |
| Assets | 4,074,800 | 1,507,400 | 786,600 | 574,900 | 6,943,700 |
| Long-Lived Asset Expenditures | 18,300 | 900 | 1,600 | - | 20,800 |
| Depreciation and Amortization | 76,000 | 9,800 | 24,300 | - | 110,100 |

Approximately 47% and 46% of net sales of benchtop laboratory equipment for the three month periods ended September 30, 2015 and 2014, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Approximately 21% and 19% of total benchtop laboratory equipment sales were derived from the new Torbal Scales Division for the three months ended September 30, 2015 and 2014, respectively.

For the three months ended September 30, 2015, and 2014, respectively, two customers accounted in the aggregate for approximately 13% of the net sales of the Benchtop Laboratory Equipment Operations for each period, 11% and 9% of the Company's revenues. 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 one and five customers during the three months ended September 30, 2015 and 2014, accounted respectively, for approximately 76% and 99% of the Catalyst Research Instrument Operations' revenues and 8% and 33% of the Company's total revenues.

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 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.

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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 September 30, 2015 and June 30, 2015 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, 2015 | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | $ 530,200 | $ 530,200 | $ - | $ - |
| Restricted cash | 300,000 | 300,000 | - | - |
| Available for sale securities | 277,000 | 277,000 | - | - |
| Total | $1,107,200 | $1,107,200 | $ - | $ - |

| | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Contingent consideration | $ 266,200 | $ - | $ - | $266,200 |

Fair Value Measurements Using Inputs Considered as

| Assets: | Fair Value at June 30, 2015 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 482,000 | $ 482,000 | $ - | $ - |
| Restricted cash | 300,000 | 300,000 | - | - |
| Available for sale securities | 281,800 | 281,800 | - | - |
| Total | $1,063,800 | $1,063,800 | $ - | $ - |
| Liabilities: | | | | |
| Contingent consideration | $ 367,100 | $ - | $ - | $367,100 |

Investments in marketable securities classified as available-for-sale by security type at September 30, 2015 and June 30, 2015 consisted of the following:

| | Cost | Fair Value | Unrealized Holding Gain (Loss) |
|---|---|---|---|
| At September 30, 2015: | | | |
| Available for sale: | | | |
| Equity securities | $ 29,300 | $ 34,000 | $ 4,700 |
| Mutual funds | 254,800 | 243,000 | ( 11,800) |
| | $ 284,100 | $ 277,000 | $ ( 7,100) |



| | Cost | Fair Value | Unrealized Holding Gain (Loss) |
|---|---|---|---|

At June 30, 2015:

| | | | |
|---|---|---|---|
| Available for sale: | | | |
| Equity securities | $ 29,300 | $ 35,800 | $ 6,500 |
| Mutual funds | 255,800 | 246,000 | ( 9,800) |
| | $ 285,100 | $ 281,800 | $ ( 3,300) |

6. Inventories:

Inventories for financial statement purposes are based on perpetual inventory records at September 30, 2015 and based on a physical count as of June 30, 2015. Components of inventory are as follows:

| | September 30, 2015 | June 30, 2015 |
|---|---|---|
| Raw materials | $1,358,600 | $1,420,800 |
| Work in process | 652,300 | 442,900 |
| Finished goods | 332,900 | 350,000 |
| | $2,343,800 | $2,213,700 |

7. Loss per common share:

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

Loss per common share was computed as follows:

| | For the Three Month Periods Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Net loss | ($ 60,100) | ($ 161,300) |
| Weighted average common shares outstanding | 1,489,112 | 1,469,112 |
| Weighted average dilutive common shares outstanding | 1,489,112 | 1,469,112 |
| Basic loss per common share | ($ .04) | ($ .11) |
| Diluted loss per common share | ($ .04) | ($ .11) |

Approximately 38,500 and 51,000 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 months ended September 30, 2015 and 2014, because the effect would be anti-dilutive due to the loss for each period.

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 $705,300 as of September 30, 2015 and June 30, 2015, all of which is expected to be deductible for tax purposes.

The components of other intangible assets are as follows:

| | Useful Lives | Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| At September 30, 2015: | | | | |
| Technology, trademarks | 5/10 yrs. | $1,215,800 | $ 649,400 | $ 566,400 |
| Trade names | 6 yrs. | 140,000 | 36,900 | 103,100 |
| Websites | 5 yrs. | 210,000 | 66,500 | 143,500 |
| Customer relationships | 9/10 yrs. | 357,000 | 240,900 | 116,100 |
| Sublicense agreements | 10 yrs. | 294,000 | 113,900 | 180,100 |
| Non-compete agreements | 5 yrs. | 384,000 | 196,800 | 187,200 |
| Intellectual Property, Research and Development(IPR&D) | 3 yrs. | 110,000 | 58,100 | 51,900 |
| Other intangible assets | 5 yrs. | 164,100 | 149,400 | 14,700 |
| | | $2,874,900 | $1,511,900 | $1,363,000 |

| | Useful Lives | Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| At June 30, 2015: | | | | |
| Technology, trademarks | 5/10 yrs. | $1,226,800 | $ 624,200 | $ 602,600 |
| Trade names | 6 yrs. | 140,000 | 31,100 | 108,900 |
| Websites | 5 yrs. | 210,000 | 56,000 | 154,000 |
| Customer relationships | 9/10 yrs. | 357,000 | 236,200 | 120,800 |
| Sublicense agreements | 10 yrs. | 294,000 | 106,600 | 187,400 |
| Non-compete agreements | 5 yrs. | 384,000 | 182,700 | 201,300 |
| Intellectual Property, Research and Development(IPR&D) | 3 yrs. | 110,000 | 48,900 | 61,100 |
| Other intangible assets | 5 yrs. | 164,000 | 148,200 | 15,800 |
| | | $2,885,800 | $1,433,900 | $1,451,900 |

Total amortization expense was $86,300 and $88,100 for the three months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, estimated future amortization expense related to intangible assets is $248,100 for the remainder of the fiscal year ending June 30, 2016, $337,000 for fiscal 2017, $324,000 for fiscal 2018, $246,600 for fiscal 2019, $80,400 for fiscal 2020, and $126,900 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 for 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 increased by $48,200 to $530,200 as of September 30, 2015 from $482,000 as of June 30, 2015.

Net cash used in operating activities was $44,400 for the three months ended September 30, 2015 as compared to cash use of $259,700 for the comparable three month period in 2014, primarily due to a decreased loss and lower accounts receivable balances. Cash used in investing activities was $6,500 for the three month period ended September 30, 2015 compared to cash provided of $54,200 for the three month period ended September 30, 2014 due primarily to the redemptions of investments in the prior year.

The Company's working capital decreased by $99,900 to $3,311,400 at September 30, 2015 from $3,411,300 at June 30, 2015, mainly as a result of the borrowings under the line of credit and contingent consideration payments.

The Company has two lines of credit with First National Bank of Pennsylvania - an Export-Related Revolving Line of Credit which is guaranteed by the Export-Import Bank of the United States which provides for export-related borrowings of up to $998,500 bearing interest at prime plus 2% and an annual fee of 1.75% and a second one-year Demand Line of Credit which provides for borrowings of up to $300,000 for regular working capital needs, bearing interest at prime, currently 3.25%, which is collaterized by a cash collateral account of $300,000 which will be released upon certain financial criteria being met or the line being paid and terminated, which ever comes first. Advances on both lines are also secured by a pledge of the Company's assets including inventory, accounts, chattel paper, equipment and general intangibles of the Company. As of September 30, 2015 $200,000 was outstanding under the Export-Related line and no borrowings were made under the second line.

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, lines of credit, and operations.

## Results of Operations

### Financial Overview

The Company incurred a loss of $77,900 before income tax benefit for the three months ended September 30, 2015 compared to a loss of $222,900 before income tax benefit for the comparable period last year, the improvement primarily due to higher sales and margins generated by the Benchtop Laboratory Equipment Operations which produced income for the segment compared to a loss last year. The result included non-cash amounts for depreciation and amortization of $105,200 and $110,100 for the three months ended September 30, 2015 and 2014, respectively.

### The Three Months Ended September 30, 2015 Compared With the Three Months Ended September 30, 2014

Revenues for the three months ended September 30, 2015 decreased by $217,600 (13.1%) to $1,444,500 from $1,662,100 for the three months ended September 30, 2014, primarily as a result of a $398,100 decrease in catalyst research instrument sales. Sales of benchtop laboratory products increased by $176,600, result of increased sales of Torbal brand products, and increased sales of Genie brand products to overseas customers. 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, and the Bioprocessing Systems Operations' revenues ($28,500) consist primarily of earned royalties.  The backlog of orders for catalyst research instruments was $2,944,000 as of September 30, 2015, due to a significant order for export, substantially all of which is expected to be delivered by fiscal year end, as compared to the backlog as of September 30, 2014 of $439,500.

The gross profit percentage for the three months ended September 30, 2015 increased to 41.2% compared to 30.1% for the three months ended September 30, 2014, primarily due to lower labor and overhead costs for the Benchtop Laboratory Equipment Operations and the lower gross profit for the Catalyst Research Instruments Operations due to lower sales by the segment.

General and administrative expenses for the three months ended September 30, 2015 increased by $81,700 (25.0%) to $408,200 from $326,500 for the three months ended September 30, 2014, primarily due to an increase in expenses incurred by the Torbal division of the Benchtop Laboratory Equipment Operations.

Selling expenses for the three months ended September 30, 2015 decreased $128,300 (43.4%) to $167,000 from $295,300 for the three months ended September 30, 2014, primarily the result of a decrease in sales commissions for the Catalyst Research Instruments Operations.

Research and development expenses for the three months ended September 30, 2015 decreased by $21,700 (20.3%) to $85,400 from $107,100 for the three months ended September 30, 2014, due to a reduction in new product development costs by the Benchtop Laboratory Equipment Operations due to the release of new product.

For the three months ended September 30, 2015, the income tax benefit was $17,800 compared to income tax benefit of $61,600 for the three months ended September 30, 2014 due to the decreased loss for the period.



As a result, the net loss for the three months ended September 30, 2015 was $60,100 compared to a net loss of $161,300 for the three months ended September 30, 2014.

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

| | |
|---|---|
| 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:

None



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 12, 2015

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