SCIENTIFIC INDUSTRIES INC
Form 10-Q
February 12, 2016

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, 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, Ste. 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 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 2, 2016 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

	December 31, 2015	June 30, 2015
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 666,900	$ 482,000
Restricted cash	300,000	300,000
Investment securities	278,200	281,800
Trade accounts receivable, net	870,100	1,081,700
Inventories	3,262,500	2,213,700
Prepaid expenses and other current assets	55,600	68,600
Deferred taxes	109,700	114,200
Total current assets	5,543,000	4,542,000
Property and equipment at cost, net	206,500	235,200
Intangible assets, net	1,281,200	1,451,900
Goodwill	705,300	705,300
Other assets	52,500	52,500
Deferred taxes	190,400	154,500
Total assets	$7,978,900	$7,141,400

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	$ 372,100	$ 227,600

Customer advances	110,100	76,400
Bank line of credit	470,000	-
Notes payable, current portion	200,000	200,000
Accrued expenses and taxes	779,500	519,900
Contingent consideration, current portion	128,900	106,800
Total current liabilities	2,060,600	1,130,700
Contingent consideration, less current portion	137,300	260,300
Total liabilities	2,197,900	1,391,000
Shareholders' equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; 1,508,914 outstanding at December 31, 2015 and June 30, 2015	75,400	75,400
Additional paid-in capital	2,487,900	2,486,700
Accumulated other comprehensive loss	(8,200)	(3,300)
Retained earnings	3,278,300	3,244,000
	5,833,400	5,802,800
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	5,781,000	5,750,400
Total liabilities and shareholders' equity	$7,978,900	$7,141,400

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,	
	2015	2014	2015	2014
Revenues	$2,028,200	$1,691,100	$3,472,600	$3,353,200
Cost of sales	1,190,500	1,081,700	2,039,800	2,163,900
Gross profit	837,700	609,400	1,432,800	1,189,300
Operating Expenses:				
General & administrative	395,700	446,400	803,900	852,600
Selling	227,200	229,400	394,200	524,700
Research & development	84,100	116,100	169,500	223,200
Total operating expenses	707,000	791,900	1,367,600	1,600,500
Income (loss) from				

operations	130,700	(182,500)	65,200	(411,200)
Other income (expense):				
Investment income	5,000	7,400	5,400	9,600
Other	1,400	(5,900)	(3,300)	(1,100)
Interest expense	(14,000)	(1,400)	(22,100)	(2,700)
Total other income, (expense) net	(7,600)	100	(20,000)	5,800
Income (loss) before income tax expense (benefit)	123,100	(182,400)	45,200	(405,400)
Income tax expense (benefit):				
Current	40,900	(33,800)	40,900	(91,000)
Deferred	(12,200)	(10,600)	(30,000)	(15,100)
Total income tax expense (benefit)	28,700	(44,400)	10,900	(106,100)
Net income (loss)	$ 94,400	($ 138,000)	$ 34,300	($299,300)
Basic and diluted earnings (loss) per common share	$ .06	($ .09)	$ .02	($ .20)

See notes to unaudited condensed consolidated financial statements

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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,	
	2015	2014	2015	2014
Net income (loss)	$ 94,400	($138,000)	$ 34,300	($299,300)
Other comprehensive loss:				
Unrealized holding loss on investments arising during period, net of tax	(1,100)	(3,800)	(4,900)	(4,500)
Comprehensive income (loss)	$ 93,300	($141,800)	$ 29,400	($303,800)

See notes to unaudited condensed consolidated financial statements

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

	For the Six Month Periods Ended December 31, 2015	December 31, 2014
Operating activities:		
Net income (loss)	$ 34,300	($ 299,300)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Loss on sale of investments	-	1,300
Loss on asset disposal	2,700	-
Depreciation and amortization	210,800	220,100
Deferred income tax benefit	(30,000)	(15,100)
Stock-based compensation	1,200	2,100
Income tax benefit of stock options exercised	-	4,900
Changes in operating assets and liabilities:		
Accounts receivable	211,600	25,700
Inventories	(1,048,800)	(106,900)
Prepaid expenses and other current assets	13,000	(37,200)
Other assets	-	(25,400)
Accounts payable	144,500	48,700
Customer advances	33,700	(77,500)
Accrued expenses and taxes	259,600	(149,200)
Total adjustments	(201,700)	(108,500)
Net cash used in operating activities	(167,400)	(407,800)
Investing activities:		
Purchase of investment securities, available-for-sale	(2,700)	(3,800)
Capital expenditures	(8,400)	(52,900)
Purchase of intangible assets	(5,700)	(3,400)
Redemption of investment securities, available for sale	-	75,000
Net cash provided by (used in) investing activities	(16,800)	14,900

Financing activities:		
Line of credit proceeds	470,000	250,000
Payment of contingent consideration	(100,900)	(98,900)
Proceeds from exercise of stock options	-	18,800
Principal payments on note payable	-	(26,700)
Net cash provided by financing activities	369,100	143,200

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 Six Month Periods Ended December 31, 2015	December 31, 2014
Net increase (decrease) in cash and cash equivalents	184,900	(249,700)
Cash and cash equivalents, beginning of year	482,000	493,700
Cash and cash equivalents, end of period	$ 666,900	$ 244,000
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	$ 18,500	$ 3,500
Interest	4,400	2,700

Non-cash investing and financing activities (Note 3)

See notes to unaudited condensed consolidated financial statements

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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 and six months ended December 31, 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.

In November 2015, the FASB issued new guidance simplifying the balance sheet classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the new guidance. The guidance is effective for public companies for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted as of the beginning of an interim or annual reporting period. The new guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is evaluating the impact that the new guidance will have on its consolidated financial statements and related disclosures.

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 payment based on a percentage of net sales of the business acquired equal to 8% for the period ended June 30, 2014 annualized, 9% for the year ended 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 amounted to $100,900 and $98,900 during the six month periods ended December 31, 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 precision scales. The products are sold primarily on a direct basis, including 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".

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 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 (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, 2015:					
Revenues	$1,583,500	$ 414,500	$ 30,200	$ -	$2,028,200
Foreign Sales	764,400	105,500	-	-	869,900
Income (Loss) from Operations	187,700	(10,100)	(32,900)	(14,000)	130,700
Assets	4,352,600	2,319,200	728,800	578,300	7,978,900
Long-Lived Asset					

Expenditures	1,900	-	5,700	-	7,600
Depreciation and Amortization	74,200	7,000	24,400	-	105,600

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Three months ended December 31, 2014:					
Revenues	$1,247,000	$ 419,600	$ 24,500	$ -	$1,691,100
Foreign Sales	722,400	315,700	-	-	1,038,100
Loss from Operations	(67,200	(70,600)	(44,700)	-	(182,500)
Assets	4,032,700	1,387,900	774,100	585,800	6,780,500
Long-Lived Asset Expenditures	33,200	-	2,300	-	35,500
Depreciation and Amortization	76,300	9,200	24,500	-	110,000

Approximately 53% and 50% of net sales of benchtop laboratory equipment (41% and 37% of total revenues) for the three month periods ended December 31, 2015 and 2014, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Approximately 19% and 21% of net sales of benchtop laboratory equipment (15% of total revenues for both periods) were derived from Torbal brand products for the three months ended December 31, 2015 and 2014, respectively.

Two customers accounted in the aggregate for approximately 14% and 18% of the net sales of the Benchtop Laboratory Equipment Operations and 11% and 13% of total revenues for the three months ended December 31, 2015, and 2014, 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 three different customers represented approximately 92% and 84% of the Catalyst Research Instrument Operations' net sales, respectively, and 19% and 21% of total revenues for the three months ended December 31, 2015 and 2014, respectively.

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Six months ended December 31, 2015:					
Revenues	$2,846,500	$ 567,500	$ 58,600	$ -	$3,472,600
Foreign Sales	1,363,400	113,300	-	-	1,476,700
Income (Loss) from					

Operations	242,400	(92,200)	(62,900)	(22,100)	65,200
Assets	4,352,600	2,319,200	728,800	578,300	7,978,900
Long-Lived Asset Expenditures	8,400	-	5,700	-	14,100
Depreciation and Amortization	148,000	13,900	48,900	-	210,800

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Six months ended December 31, 2014:					
Revenues	$2,333,400	$ 970,700	$ 49,100	$ -	$3,353,200
Foreign Sales	1,133,500	759,200	-	-	1,892,700
Loss from Operations	(185,300	(140,800)	(85,100)	-	(411,200)
Assets	4,032,700	1,387,900	774,100	585,800	6,780,500
Long-Lived Asset Expenditures	51,500	900	3,900	-	56,300
Depreciation and Amortization	152,300	19,000	48,800	-	220,100

Approximately 50% and 48% of net sales of benchtop laboratory equipment (41% and 33% of total revenues) for the six month periods ended December 31, 2015 and 2014, 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 13% and 16% of the segment's net sales for the six month periods ended December 31, 2015 and 2014, and 11% of total revenues for each of the six month periods ended December 31, 2015 and 2014.

Approximately 20% of net sales of benchtop laboratory equipment were derived from Torbal brand products for each of the six months ended December 31, 2015 and 2014, and 16% and 14% of total revenues, respectively.

For the six month periods ended December 31, 2015 and 2014, catalyst research Instruments sales to three and six different customers in each of the six month periods, accounted for approximately 88% and 97% of the segment's net sales and 14% and 28% of total revenues, 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, 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 December 31, 2015	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 666,900	$ 666,900	$ -	$ -
Restricted cash	300,000	300,000	-	-
Available for sale securities	278,200	278,200	-	-
Total	$1,245,100	$1,245,100	$ -	$ -
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 December 31, 2015 and June 30, 2015 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At December 31, 2015:			
Available for sale:			
Equity securities	$ 29,300	$ 38,200	$ 8,900
Mutual funds	257,100	240,000	(17,100)
	$ 286,400	$ 278,200	$ (8,200)

	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 December 31, 2015 and based on a physical count as of June 30, 2015. Components of inventory are as follows:

	December 31, 2015	June 30, 2015
Raw Materials	$1,439,000	$1,420,800
Work in process	1,510,400	442,900
Finished Goods	313,100	350,000
	$3,262,500	$2,213,700

7. Earnings (loss) per common share:

Basic earnings (loss) per common share are computed by dividing net income (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,	
	2015	2014	2015	2014
Net income (loss)	$ 94,400	($ 138,000)	$ 34,300	($ 299,300)
Weighted average common shares outstanding	1,489,112	1,479,112	1,489,112	1,475,960
Dilutive securities	-	-	-	-
Weighted average dilutive common shares outstanding	1,489,112	1,479,112	1,489,112	1,475,960
Basic and diluted earnings (loss) per common share	$ .06	($ .09)	$ .02	($ .20)

Approximately 38,500 and 51,000 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, 2015 and 2014, respectively, 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 $705,300 as of December 31, 2015 and June 30, 2015, 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, 2015:				
Technology, trademarks	5/10 yrs.	$1,215,800	$ 682,600	$ 533,200
Trade names	6 yrs.	140,000	42,800	97,200
Websites	5 yrs.	210,000	77,000	133,000
Customer relationships	9/10 yrs.	357,000	246,500	110,500
Sublicense agreements	10 yrs.	294,000	121,300	172,700
Non-compete agreements	5 yrs.	384,000	210,900	173,100
Intellectual Property, Research & Development (IPR&D)	3 yrs.	110,000	67,200	42,800
Other intangible assets	5 yrs.	169,800	151,100	18,700
		$2,880,600	$1,599,400	$1,281,200

	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 & 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 $87,500 and $88,200 for the three months ended December 31, 2015 and 2014, respectively and $173,800 and $176,300 for the six months ended December 31, 2015 and 2014, respectively. As of December 31, 2015, estimated future amortization expense related to intangible assets is $160,600 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 $132,600 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 increased by $184,900 to $666,900 as of December 31, 2015 from $482,000 as of June 30, 2015.

Operating activities used $167,400 of cash for the six months ended December 31, 2015 compared to $407,800 used during the six months ended December 31, 2014. The current year period reflected significantly higher amounts of work-in-process inventories related to a large impending order for catalyst research instruments, partially offset by the income generated during the period compared to a loss in same period last year. Cash used in investing activities during the six months ended December 31, 2015 was $16,800 compared to cash provided of $14,900 for the six months ended December 31, 2014 primarily due to decreased capital expenditures and no redemptions of investment securities in the current year period. Net cash provided by financing activities increased to $369,100 for the six months ended December 31, 2015 compared to $143,200 in the prior year period due primarily to increased loan advances under the export-related line of credit to finance the export-related inventory purchases of catalyst research instruments.

The Company's working capital increased by $71,100 to $3,482,400 as of December 31, 2015 from working capital of $3,411,300 at June 30, 2015, mainly due to the income generated during the period.

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% (currently 5.50%) 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, 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 December 31, 2015 $470,000 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 recorded income before income tax expense of $123,100 and $45,200 for the three and six month periods ended December 31, 2015 compared to a loss before income tax benefit amounting to $182,400 and $405,400 for the three and six month periods ended December 31, 2014, respectively. The improvement is primarily due to higher sales and margins generated by the Benchtop Laboratory Equipment Operations which produced income for the segment compared to losses last year. The results reflect non-cash amounts for depreciation and amortization of $105,600 and $210,800 for the three and six months ended December 31, 2015 compared to $110,000 and $220,100 respectively.

The Three Months Ended December 31, 2015 Compared With the Three Months Ended December 31, 2014

Net revenues for the three months ended December 31, 2015 increased by $337,100 (19.9%) to $2,028,200 from $1,691,100 for the three months ended December 31, 2014, primarily as a result of a $336,500 increase in revenues by the Benchtop Laboratory Equipment Operations, which reflected $295,500 of Torbal brand products sales compared to $256,000 in the prior year comparable period. 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 $3,102,000 as of December 31, 2015, the majority of which are anticipated to be delivered by June 30, 2016; the backlog as of December 31, 2014 was $949,000.

The increase in gross profit percentage for the three months ended December 31, 2015 to 41.3% from 36.0% for the year earlier three month period was primarily due to the product mix and lower overhead costs of the Benchtop Laboratory Equipment Operations.

General and administrative expenses for the three month comparative periods ended December 31, 2015 and December 31, 2014 decreased by $50,700 (11.4%) to $395,700 from $446,400 primarily due to expenses incurred in the 2014 period by the Benchtop Laboratory Equipment Operations associated with the Bohemia facility move.

Selling expenses for the three months ended December 31, 2015 decreased by $2,200 to $227,200 from $229,400 for the three months ended December 31, 2014.

Research and development expenses for the three months ended December 31, 2015 decreased $32,000 (27.6%) to $84,100 from $116,100 for the three months ended December 31, 2014, primarily the result of decreased new product development by the Company's Benchtop Laboratory Equipment Operations due to the release of a new product.

Total other income (expense), net for the three month period ended December 31, 2015 decreased by $7,700 to ($7,600) from $100 for the three month period ended December 31, 2014 due to increased interest expense.

For the three months ended December 31, 2015, income tax expense was $28,700 compared to income tax benefit of $44,400 for the three months ended December 31, 2014 due to the income for the period compared to a loss in the prior year period.

As a result, the net income for the three months ended December 31, 2015 was $94,400 compared to a net loss of $138,000 for the three months ended December 31, 2014.

The Six Months Ended December 31, 2015 Compared With the Six Months Ended December 31, 2014

Net revenues for the six months ended December 31, 2015 increased by $119,400 (3.6%) to $3,472,600 compared to $3,353,200 for the six months ended December 31, 2014, primarily due to increases of $513,100 in sales of benchtop laboratory equipment, partially offset by a $403,200 decrease in catalyst research instruments sales and an increase of $9,500 in revenues of the Bioprocessing Systems Operations. The 2015 benchtop laboratory equipment sales included $565,400 of Torbal brand product sales compared to $467,500 in the prior year period. 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 gross profit percentage for the six months ended December 31, 2015 increased to 41.3% compared to 35.5% for the six months ended December 31, 2014, due principally to product mix and lower overhead costs of the Benchtop Laboratory Equipment Operations.

General and administrative expenses decreased by $48,700 (5.7%) to $803,900 for the six months ended December 31, 2015 from $852,600 for the comparable period of the prior year, due primarily to the expenses in the prior year period for the Benchtop Laboratory Equipment Operations, associated with the Bohemia facility move.

Selling expenses for the six months ended December 31, 2015 decreased by $130,500 (24.9%) to $394,200 from $524,700 for the six months ended December 31, 2014, primarily the result of decreased commissions due to sales mix and exhibitions expense for the Catalyst Research Instruments Operations.

Research and development expenses for the six months ended December 31, 2015 decreased $53,700 (24.1%) to $169,500 compared to $223,200 for the six months ended December 31, 2014, primarily the result of decreased new product development by the Benchtop Laboratory Equipment Operations and the Catalyst Research Instruments Operations as new products were launched.

Total other income (expense), net, for the six month period ended December 31, 2015 decreased to ($20,000) from $5,800 for the six months ended December 31, 2014 primarily due to increased interest expense.

For the six month period ended December 31, 2015 income tax expense was $10,900 compared to income tax benefit of $106,100 for the comparable period of the prior fiscal year due to the income for the period compared to a loss in the prior year period.

As a result, the net income for the six months ended December 31, 2015 was $34,300 compared to a net loss of $299,300 for the six months ended December 31, 2015.

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:

Report dated January 26, 2016 reporting under Item 1.01 and 5.07.

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 12, 2016