SCIENTIFIC INDUSTRIES INC
Form 10-Q
May 12, 2017

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: March 31, 2017

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
(State or other jurisdiction of incorporation or organization)

04-2217279
(IRS Employer Identification No.)

80 Orville Drive, Suite 102, Bohemia, New York
(Address of principal executive offices)

11716
(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 May 1, 2017 was 1,494,112 shares.

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PART I-FINANCIAL INFORMATION
Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS

	March 31, 2017	June 30, 2016

	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$1,211,300	$ 1,245,000
Investment securities	294,000	290,100
Trade accounts receivable, net	1,327,700	1,231,900
Inventories	2,205,900	2,412,100
Prepaid expenses and other current assets	73,100	47,200
Deferred taxes	141,000	140,600
Total current assets	5,253,000	5,366,900
Property and equipment at cost, net	212,900	251,100
Intangible assets, net	690,200	897,600
Goodwill	705,300	705,300
Other assets	52,500	52,500
Deferred taxes	284,200	275,900
Total assets	$7,198,000	$7,549,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 343,100	$ 342,400
Customer advances	107,900	-
Notes payable, current portion	6,600	6,400
Accrued expenses, current portion	532,000	849,700
Contingent consideration, current portion	16,000	136,500
Total current liabilities	1,005,600	1,335,000
Notes payable, less current portion	7,500	12,500
Accrued expenses, less current portion	60,000	60,000
Contingent consideration payable, less current portion	164,200	209,800
Total liabilities	1,237,300	1,617,300
Shareholders' equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; 1,513,914 and 1,508,914 issued and outstanding at March 31, 2017 and June 30, 2016	75,700	75,400
Additional paid-in capital	2,515,000	2,498,500
Accumulated other comprehensive income (loss)	(4,700)	900
Retained earnings	3,427,100	3,409,600
	6,013,100	5,984,400
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	5,960,700	5,932,000
Total liabilities and shareholders' equity	$7,198,000	$7,549,300

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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 March 31,		For the Nine Month Periods Ended March 31,	
	2017	2016	2017	2016
Revenues	$1,910,900	$1,674,300	$6,153,800	$5,146,900
Cost of revenues	1,054,800	993,100	3,833,200	3,032,900
Gross profit	856,100	681,200	2,320,600	2,114,000
Operating expenses:				
General & administrative	435,100	426,700	1,256,700	1,230,500
Selling	223,900	196,200	664,800	590,400
Research & development	114,100	93,400	334,500	263,000
Total operating expenses	773,100	716,300	2,256,000	2,083,900
Income (loss) from operations	83,000	(35,100)	64,600	30,100
Other income (expense):				
Investment income	1,100	300	10,100	5,700
Other	-	200	5,700	(3,000)
Interest expense	(1,200)	(13,700)	(2,200)	(35,900)
Total other income, (expense) net	(100)	(13,200)	13,600	(33,200)
Income (loss) before income taxes (benefit)	82,900	(48,300)	78,200	(3,100)
Income tax expense (benefit):				
Current	38,900	2,200	23,400	43,100
Deferred	(21,600)	(13,600)	(7,400)	(43,600)
Total income tax expense (benefit)	17,300	(11,400)	16,000	(500)
Net income (loss)	$ 65,600	($ 36,900)	$ 62,200	($ 2,600)
Basic earnings (loss) per common share	$ .04	($ .02)	$ .04	($ .00)
Diluted earnings (loss) per common share	$ .04	($ .02)	$ .04	($ .00)
Cash dividends declared per common share	$ .03	$ -	$ .03	$ -

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2017	2016	2017	2016
Net income (loss)	$ 65,600	($ 36,900)	$ 62,200	($ 2,600)
Other comprehensive income (loss):				
Unrealized holding gain (loss) arising during period, net of tax	1,300	3,000	(5,600)	(1,900)
Comprehensive income (loss)	$ 66,900	($ 33,900)	$ 56,600	($ 4,500)

See notes to unaudited condensed consolidated financial statements

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

	For the Nine Month Periods Ended	
	March 31, 2017	March 31, 2016
Operating activities:		
Net Income (loss)	$ 62,200	($ 2,600)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of investments	(3,200)	-
Loss on asset disposal	-	2,700
Depreciation and amortization	276,500	319,100
Deferred income tax expense	(7,400)	(43,600)
Stock-based compensation	1,300	11,200
Changes in operating assets and liabilities:		
Accounts receivable	(95,800)	364,600
Inventories	206,200	(1,461,200)
Prepaid expenses and other current assets	(25,900)	13,800
Accounts payable	700	194,700
Customer advances	107,900	191,400
Accrued expenses	(317,700)	195,000
Total adjustments	142,600	(212,300)
Net cash provided by (used in) operating activities	204,800	(214,900)
Investing activities:		
Redemption of investment securities, available-for-sale	11,100	-
Purchase of investment securities, available-for-sale	(18,700)	(2,700)
Capital expenditures	(18,200)	(45,100)
Purchase of intangible assets	(12,800)	(7,400)
Net cash used in investing activities	(38,600)	(55,200)
Financing activities:		
Line of credit proceeds	250,000	970,000
Line of credit repayments	(250,000)	-
Cash dividend declared and paid	(44,500)	-
Payments of contingent consideration	(166,100)	(100,900)
Proceeds from exercise of stock options	15,500	-
Principal payments on note payable	(4,800)	-
Net cash provided by (used in)		

financing activities	(199,900)	869,100
Net increase (decrease) in cash and cash equivalents	(33,700)	599,000
Cash and cash equivalents, beginning of year	1,245,000	482,000
Cash and cash equivalents, end of period	$1,211,300	$1,081,000
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	$ 213,500	$ 35,500
Interest	2,200	27,200

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, 2016. The results for the three and nine months ended March 31, 2017, are not necessarily an indication of the results for the full fiscal year ending June 30, 2017.

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. Recent Accounting Pronouncements:

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other, (Topic 350): Simplifying the Test for Goodwill Impairment, which is intended to simplify the subsequent measurement and impairment of goodwill. The ASU simplifies the complexity of evaluating goodwill for impairment by eliminating the second step of the impairment test, which compares the implied fair value of a reporting unit's goodwill to the carrying amount of that goodwill. Instead, the ASU requires entities to compare the fair value of a reporting unit to its carrying amount in order to determine the amount of goodwill impairment recognized. ASU No. 2017-04 is effective for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption of all the amendments for ASU 2017-04 is permitted. Amendments must be applied prospectively. The Company is in process of assessing the impact of the adoption of ASU No. 2017-04 on its financial position, results of operations and cash flows.

In February 2016, the FASB issued authoritative guidance that requires lessees to account for most leases on their balance sheets with the liability being equal to the present value of the lease payments. The right-of-use asset will be based on the lease liability adjusted for certain costs such as direct costs. Lease expense will be recognized similar to current accounting guidance with operating leases resulting in a straight-line expense and financing leases resulting in a front-loaded expense similar to the current accounting for capital leases. This guidance becomes effective for the Company's fiscal 2020 first quarter, with early adoption permitted.

This guidance must be adopted using a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, and provides for certain practical expedients. The Company is currently evaluating the timing, impact and method of applying this guidance on its consolidated financial statements.

3. Segment Information and Concentrations:

The Company views its operations as three segments: the manufacture and marketing of standard benchtop laboratory equipment for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors ("Benchtop Laboratory Equipment"), 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 (foreign sales are principally to customers in Europe and Asia):

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Consolidated
Three months ended March 31, 2017:					
Revenues	$1,410,800	$ 359,800	$ 140,300	$ -	$1,910,900
Foreign Sales	611,400	37,100	-	-	648,500
Income(Loss)from					

Operations	88,900	(82,400)	76,500	-	83,000
Assets	4,170,900	1,822,200	485,700	719,200	7,198,000
Long-Lived Asset Expenditures	4,600	-	7,000	-	11,600
Depreciation and Amortization	73,500	1,600	12,000	-	87,100

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Three months ended March 31, 2016:					
Revenues	$1,279,300	$ 364,900	$ 30,100	$ -	$1,674,300
Foreign Sales	597,300	25,900	-	-	623,200
Income(Loss)from Operations	2,800	5,500	(29,600)	(13,800)	(35,100)
Assets	4,358,700	2,898,400	746,200	595,000	8,598,300
Long-Lived Asset Expenditures	31,500	3,200	3,700	-	38,400
Depreciation and Amortization	74,800	9,000	24,500	-	108,300

Approximately 54% and 50% of net sales of benchtop laboratory equipment for the three month periods ended March 31, 2017 and 2016, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 21% and 22% of total benchtop laboratory equipment sales were derived from the Torbal Scales Division for the three months ended March 31, 2017 and 2016, respectively.

Two benchtop laboratory equipment customers accounted for approximately 15% and 19% of the segment's net sales for the three month periods ended March 31, 2017 and 2016 (11% and 15% of total revenues, respectively, for the periods).

Sales of catalyst research instruments are generally pursuant to large orders averaging more than $100,000 per order to a limited numbers of customers. Sales to two customers in the three months ended March 31, 2017 and two different customers in the three months ended March 31, 2016, accounted respectively for 76% and 86% of the segment?s net sales for each of the periods (14% and 19% of total revenues, respectively, for the periods).

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Nine months ended March 31, 2017:					

Revenues	$4,334,400	$1,629,400	$ 190,000	$ -	$6,153,800
Foreign Sales	1,924,400	52,200	-	-	1,976,600
Income(Loss)from Operations	252,900	(197,400)	9,100	-	64,600
Assets	4,170,900	1,822,200	485,700	719,200	7,198,000
Long-Lived Asset Expenditures	18,200	-	12,800	-	31,000
Depreciation and Amortization	226,900	12,700	37,000	-	276,600

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Nine months ended March 31, 2016:					
Revenues	$4,125,900	$ 932,300	$ 88,700	$ -	$5,146,900
Foreign Sales	1,960,700	139,200	-	-	2,099,900
Income(Loss)from Operations	245,200	(86,700)	(92,500)	(35,900)	30,100
Assets	4,358,700	2,898,400	746,200	595,000	8,598,300
Long-Lived Asset Expenditures	39,900	3,200	9,400	-	52,500
Depreciation and Amortization	222,800	22,900	73,400	-	319,100

Approximately 53% and 50% of net sales of benchtop laboratory equipment for the nine month periods ended March 31, 2017 and 2016,respectively, were derived from sales of the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

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Approximately 23% and 21% of total benchtop laboratory equipment sales for the nine months ended March 31, 2017 and 2016, respectively, were derived from sales of the Torbal Scales Division.

Two benchtop laboratory equipment customers, accounted for approximately 11% and 15% of the segment?s net sales (8% and 12% of total revenues) for the nine month periods ended March 31, 2017 and 2016, respectively.

Sales of catalyst research instruments to four customers in the nine months ended March 31, 2017 and to four other customers in the nine months ended March 31, 2016 accounted for approximately 92% and 87% of that segment's net sales (24% and 16% of total revenues) for the respective nine month periods.

The Company's foreign sales are principally made to customers in Europe and Asia. The Company also has an arrangement with a supplier for annual minimum purchase commitments through February 2020 which the Company has already met for the current year.

4. 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 concerning 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 valuations 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 and liabilities that were accounted for at fair value on a recurring basis at March 31, 2017 and June 30, 2016 according to the valuation techniques the Company used to determine their fair values:

		Fair Value Measurements Using Inputs Considered as		
	Fair Value at March 31, 2017	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$1,211,300	$1,211,300	$ -	$ -
Available for sale securities	294,000	294,000	-	-
Total	$1,505,300	$1,505,300	$ -	$ -
Liabilities:				
Contingent consideration	$ 180,200	$ -	$ -	$180,200

		Fair Value Measurements Using Inputs Considered as		
	Fair Value at June 30, 2016	Level 1	Level 2	Level 3

Assets:				
Cash and cash equivalents	$1,245,000	$1,245,000	$ -	$ -
Available for sale securities	290,100	290,100	-	-
Total	$1,535,100	$1,535,100	$ -	$ -
Liabilities:				
Contingent consideration	$ 346,300	$ -	$ -	$346,300

The following table sets forth an analysis of changes during the nine months ended March 31, 2017, Level 3 financial liabilities of the Company:

Beginning balance, June 30, 2016	$346,300
Payments	(166,100)
Ending Balance, March 31, 2017	$180,200

Investments in marketable securities classified as available-for-sale by security type at March 31, 2017 and June 30, 2016 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At March 31, 2017:			
Available for sale:			
Equity securities	$ 37,000	$ 49,500	$ 12,500
Mutual funds	261,700	244,500	(17,200)
	$ 298,700	$ 294,000	($ 4,700)

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2016:			
Available for sale:			
Equity securities	$ 29,300	$ 40,700	$ 11,400
Mutual funds	259,900	249,400	(10,500)
	$ 289,200	$ 290,100	$ 900

5. Inventories:

At interim reporting periods, inventories for financial statement purposes are based on perpetual inventory records. Components of inventory are as follows:

	March 31, 2017	June 30, 2016

Raw Materials	$1,364,900	$1,529,800
Work in process	429,500	425,300
Finished Goods	411,500	457,000
	$2,205,900	$2,412,100

6. 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 (loss) 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 March 31,		For the Nine Month Periods Ended March 31,	
	2017	2016	2017	2016
Net income (loss)	$ 65,600	($ 36,900)	$ 62,200	($ 2,600)
Weighted average common shares outstanding	1,492,334	1,489,112	1,490,189	1,489,112
Effect of dilutive securities	38	-	1,309	-
Weighted average dilutive common shares outstanding	1,492,372	1,489,112	1,491,498	1,489,112
Basic earnings (loss) per common share	$ .04	($ .02)	$ .04	($ .00)
Diluted earnings (loss) per common share	$ .04	($ .02)	$ .04	($ .00)

Approximately 33,500 and 38,500 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 nine month periods ended March 31, 2017 and 2016, respectively, because the effect would be anti-dilutive.

7. Goodwill and Other Intangible Assets:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisitions. Goodwill amounted to $705,300 as of March 31, 2017 and June 30, 2016, respectively, all of which is deductible for tax purposes.

The components of other intangible assets are as follows:

Useful Accumulated

	Lives	Cost	Amortization	Net
At March 31, 2017:				
Technology, trademarks	5/10 yrs.	$ 722,800	$ 532,000	$ 190,800
Trade names	6 yrs.	140,000	71,900	68,100
Websites	5 yrs.	210,000	129,500	80,500
Customer relationships	9/10 yrs.	357,000	278,100	78,900
Sublicense agreements	10 yrs.	294,000	158,000	136,000
Non-compete agreements	5 yrs.	384,000	280,500	103,500
Intellectual property, research & development (IPR&D)	3 yrs.	110,000	110,000	-
Other intangible assets	5 yrs.	194,500	162,100	32,400
		$2,412,300	$1,722,100	$ 690,200

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2016:				
Technology, trademarks	5/10 yrs.	$ 722,800	$ 468,800	$ 254,000
Trade names	6 yrs.	140,000	54,400	85,600
Websites	5 yrs.	210,000	98,000	112,000
Customer relationships	9/10 yrs.	357,000	261,600	95,400
Sublicense agreements	10 yrs.	294,000	136,000	158,000
Non-compete agreements	5 yrs.	384,000	239,100	144,900
Intellectual Property, Research & Development (IPR&D)	3 yrs.	110,000	85,500	24,500
Other intangible assets	5 yrs.	177,900	154,700	23,200
		$2,395,700	$1,498,100	$ 897,600

Total amortization expense was $69,900 and $89,400 for the three months ended March 31, 2017 and 2016, respectively and $224,000 and $263,200 for the nine months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, estimated future amortization expense related to intangible assets is $73,400 for the remainder of the fiscal year ending June 30, 2017, $288,500 for fiscal 2018, $210,600 for fiscal 2019, $45,100 for fiscal 2020, $43,500 for fiscal 2021, and $29,100 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 catalyst research instruments to customers' satisfaction, 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 $33,700 to $1,211,300 as of March 31, 2017 from $1,245,000 as of June 30, 2016.

Operating activities provided cash of $204,800 for the nine month period ended March 31, 2017 as compared to the $214,900 used during the nine month period ended March 31, 2016. The current year period reflected income from operations and significantly lower amounts of work-in-progress inventories for the Catalyst Research Instruments Operations related to a significant order shipped last year, partially offset by higher amounts in accrued expenses. Net cash used in investing activities was $38,600 for the nine months ended March 31, 2017 compared to $55,200 for the comparable period last year primarily due to decreased capital expenditures in the current year period. Net cash used in financing activities was $199,900 for the nine months ended March 31, 2017 compared to $869,100 provided by financing activities in the comparable prior year period primarily due to the proceeds from the export-related line of credit to finance the inventories discussed above in the prior year period and higher contingent consideration paid.

The Company's working capital increased by $215,500 to $4,247,400 as of March 31, 2017 from $4,031,900 at June 30, 2016.

The Company has two lines of credit through June 2017 with First National Bank of Pennsylvania comprised of (i) 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 $200,000, bearing interest at the prime rate plus 1% and an annual fee of 1.75% and (ii) 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 the prime rate, currently 4.0%. Advances on both lines are secured by a pledge of the Company's assets including inventory, accounts, chattel paper, equipment and general intangibles of the Company. As of March 31, 2017 and June 30, 2016, the Company had no borrowings 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, income from operations, and the lines of credit which are expected to be renewed.

Results of Operations

Financial Overview

The Company recorded income before income tax expense of $82,900 and a loss before income tax benefit of $48,300 for the three month periods ended March 31, 2017 and 2016, respectively; and income before income tax of $78,200 and a loss before income tax benefit of $3,100 for the nine month periods ended March 31, 2017 and 2016, respectively, primarily due to higher sales and gross profit margins of benchtop laboratory equipment and higher royalties earned by the Bioprocessing Systems Operations, partially offset by increased losses by the Catalyst Research Instruments Operations due principally to lower gross margins. The results reflect non-cash amounts for depreciation and amortization of $87,100 and $108,300 for the three months ended March 31, 2017 and 2016, respectively, and $276,600 and $319,100 for the nine months ended March 31, 2017 and 2016, respectively.

The Three Months Ended March 31, 2017 Compared With the Three Months Ended March 31, 2016

Net revenues for the three months ended March 31, 2017 increased by $236,600 (14.1%) to $1,910,900 from $1,674,300 for the three months ended March 31, 2016, as a result of a $131,500 increase in sales of benchtop laboratory equipment and $110,200 increase in royalties earned by the Bioprocessing Systems Operations, partially offset by a decrease of $5,100 in catalyst research instruments sales. 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 $431,200 at March 31, 2017 compared to $3,027,000 as of March 31, 2016, all of which is anticipated to be delivered by June 30, 2017. Revenues derived by the Bioprocessing Systems Operations pertain to royalties earned from sublicenses.

The gross profit percentage for the three months ended March 31, 2017 was 44.8% compared to 40.7% for the three months ended March 31, 2016, reflecting increased margins for the Benchtop Laboratory Equipment and lower gross margins for catalyst research instruments as a result of sales mix. All the revenues derived by the Bioprocessing Systems Operations related to net royalties earned.

General and administrative expenses for the three months ended March 31, 2017 amounted to $435,100 compared to $426,700 for the three months ended March 31, 2016.

Selling expenses for the three months ended March 31, 2017 increased $27,700 (14.1%) to $223,900 compared to $196,200 for the three months ended March 31, 2016 principally due to increased online marketing activities by the Benchtop Laboratory Equipment Operations and trade show activity by the Catalyst Research Instruments Operations.

Research and development expenses for the three months ended March 31, 2017 increased $20,700 (22.2%) to $114,100 from $93,400 for the three months ended March 31, 2016, primarily the result of increased new product development expenses incurred by the Company's Bioprocessing Systems Operations.

Total other income (expense), net for the three month period ended March 31, 2017 was ($100) compared to ($13,200) for the three month period ended March 31, 2016 due to decreased interest expense as a result of less borrowings during the current period.

For the three months ended March 31, 2017, income tax expense was $17,300 compared to tax benefit of $11,400 for the prior year comparative period due to income for the current year period.

As a result, the net income for the three months ended March 31, 2017 was $65,600 compared to a loss of $36,900 for the three months ended March 31, 2016.

The Nine Months Ended March 31, 2017 Compared With the Nine Months Ended March 31, 2016

Net revenues for the nine months ended March 31, 2017 increased by $1,006,900 (19.6%) to $6,153,800 compared to $5,146,900 for the nine months ended December 31, 2015, due to increases of $697,100, $208,500 and $101,300 in sales of catalyst research instruments, benchtop laboratory equipment, and bioprocessing systems royalties, respectively.

The gross profit percentage for the nine months ended March 31, 2017 decreased to 37.7% compared to 41.1% for the nine months ended March 31, 2016, reflecting lower gross margins for catalyst research instruments as a result of sales mix and increased margins for the Benchtop Laboratory Equipment.

All the revenues derived by the Bioprocessing Systems Operations related to net royalties earned.

General and administrative expenses increased by $26,200 (2.1%) to $1,256,700 for the nine months ended March 31, 2017 from $1,230,500 for the comparable period of the prior year, primarily due to various expenses incurred by the Benchtop Laboratory Equipment Operations.

Selling expenses for the nine months ended March 31, 2017 increased by $74,400 (12.6%) to $664,800 from $590,400 for the nine months ended March 31, 2016, principally due to online marketing activities by the Benchtop Laboratory Equipment Operations and trade show activity by the Catalyst Research Instruments Operations.

Research and development expenses for the nine months ended March 31,2017 increased by $71,500 (27.2%) to $334,500 compared to $263,000 for the nine months ended March 31, 2016, primarily the result of increased new product development by the Company's Bioprocessing Systems Operations and the Benchtop Laboratory Equipment Operations.

Total other income (expense), net, for the nine month period ended March 31, 2017 increased to $13,600 from ($33,200) for the nine months ended March 31, 2016 primarily due to decreased interest expense.

For the nine month period ended March 31, 2017, the income tax expense was $16,000 compared to income tax benefit of $500 for the comparable period of the prior fiscal year due to income during the current year period.

As a result, net income for the nine months ended March 31, 2017 was $62,200 compared to a net loss of $2,600 for the nine months ended March 31, 2016.

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 February 10, 2017 reporting under Item 1.01.

Report dated January 15, 2017 reporting under Item 8.01.

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: May 12, 2017