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SCIENTIFIC INDUSTRIES INC

Form 10-Q

May 12, 2016

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For quarterly period ended March 31, 2016

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 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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as

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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, 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	
	March 31, 2016	June 30, 2015
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$1,081,000	\$ 482,000
Restricted cash	300,000	300,000
Investment securities	282,300	281,800
Trade accounts receivable, net	717,100	1,081,700
Inventories	3,674,900	2,213,700
Prepaid expenses and other current assets	54,800	68,600
Deferred taxes	104,400	114,200
Total current assets	6,214,500	4,542,000
Property and equipment, net	222,300	235,200
Intangible assets, net	1,195,400	1,451,900
Goodwill	705,300	705,300
Other assets	52,500	52,500
Deferred taxes	208,300	154,500
Total assets	\$8,598,300 =====	\$7,141,400 =====
	LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:		
Accounts payable	\$ 422,300	\$ 227,600
Customer advances	267,800	76,400

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Bank line of credit	970,000	-
Notes payable	200,000	200,000
Accrued expenses and taxes	714,900	519,900
Contingent consideration, current portion	128,900	106,800
	<u>2,703,900</u>	<u>1,130,700</u>
Total current liabilities		
Contingent consideration, less current portion	137,300	260,300
	<u>2,841,200</u>	<u>1,391,000</u>
Total liabilities		
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,508,914 outstanding at March 31, 2016 and June 30, 2015	75,400	75,400
Additional paid-in capital	2,497,900	2,486,700
Accumulated other comprehensive loss	(5,200)	(3,300)
Retained earnings	3,241,400	3,244,000
	<u>5,809,500</u>	<u>5,802,800</u>
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	<u>5,757,100</u>	<u>5,750,400</u>
Total liabilities and shareholders' equity	<u>\$8,598,300</u>	<u>\$7,141,400</u>
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

For the Three Month For the Nine Month
Periods Ended Periods Ended

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	March 31,		March 31,	
	2016	2015	2016	2015
Revenues	\$1,674,300	\$1,729,200	\$5,146,900	\$5,082,400
Cost of sales	993,100	961,900	3,032,900	3,125,800
Gross profit	681,200	767,300	2,114,000	1,956,600
Operating expenses:				
General & administrative	426,700	433,900	1,230,500	1,286,500
Selling	196,200	202,200	590,400	726,900
Research & development	93,400	94,500	263,000	317,700
Total operating expenses	716,300	730,600	2,083,900	2,331,100
Income (loss) from operations	(35,100)	36,700	30,100	(374,500)
Other income (expense):				
Investment income	300	1,100	5,700	10,700
Other	200	(4,600)	(3,000)	(5,700)
Interest expense	(13,700)	(1,600)	(35,900)	(4,300)
Total other income, (expense) net	(13,200)	(5,100)	(33,200)	700
Income (loss) before income taxes (benefit)	(48,300)	31,600	(3,100)	(373,800)
Income tax expense (benefit):				
Current	2,200	34,800	43,100	(56,200)
Deferred	(13,600)	(22,200)	(43,600)	(37,300)
Total income (loss) tax expense (benefit)	(11,400)	12,600	(500)	(93,500)
Net income (loss)	(\$ 36,900)	\$ 19,000	(\$ 2,600)	(\$280,300)
Basic earnings (loss) per common share	(\$.02)	\$.01	\$.00	(\$.19)
Diluted earnings (loss) per common share	(\$.02)	\$.01	\$.00	(\$.19)
Cash dividends declared per common share	\$ -	\$ -	\$ -	\$ -

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,	
	2016	2015	2016	2015
Net income (loss)	(\$ 36,900)	\$ 19,000	(\$ 2,600)	(\$ 280,300)
Other comprehensive income (loss):				
Unrealized holding gain (loss) arising during period, net of tax	3,000	2,900	(1,900)	(1,600)
Comprehensive income (loss)	(\$ 33,900)	\$ 21,900	(\$ 4,500)	(\$ 281,900)
	=====	=====	=====	=====

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 Nine Month Periods Ended
March 31, 2016 March 31, 2015

	March 31, 2016	March 31, 2015
Operating activities:		
Net income loss	(\$ 2,600)	(\$ 280,300)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on sale of investments	-	4,400
Loss on asset disposal	2,700	-
Depreciation and amortization	319,100	327,200
Deferred income tax benefit	(43,600)	(37,300)
Stock-based compensation	11,200	10,200
Income tax benefit of stock options exercised	-	4,900
Changes in operating assets and liabilities:		
Accounts receivable	364,600	(72,900)
Inventories	(1,461,200)	(312,100)
Prepaid expenses and other current assets	13,800	11,900
Accounts payable	194,700	(48,600)
Customer advances	191,400	235,400
Accrued expenses and taxes	195,000	(13,500)
Other assets	-	(24,200)
Total adjustments	(212,300)	85,400
Net cash used in operating activities	(214,900)	(194,900)
Investing activities:		
Redemption of investment securities, available-for-sale	-	127,000
Purchase of investment securities, available-for-sale	(2,700)	(3,800)
Capital expenditures	(45,100)	(56,500)
Purchase of intangible assets	(7,400)	(4,400)
Net cash provided by (used in) investing activities	(55,200)	62,300
Financing activities:		
Line of credit proceeds	970,000	250,000
Line of credit repayments	-	(150,000)
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 (used in) financing activities	869,100	(6,800)
Net increase (decrease) in cash and cash equivalents	599,000	(139,400)
Cash and cash equivalents, beginning of year	482,000	493,700
Cash and cash equivalents, end of period	\$1,081,000	\$ 354,300

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Supplemental disclosures:

Cash paid during the period for:

Income taxes	\$ 35,500	\$ 3,500
Interest	27,200	4,300

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 nine months ended March 31, 2016, 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. Recent 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

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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.

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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.

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

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evaluating the timing, impact and method of applying this guidance on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). Areas for simplification in this update involve several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, with early application permitted.

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The Company is currently evaluating the timing, impact and method of applying this guidance 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 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 nine month periods ended March 31, 2016 and 2015, 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.

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	\$	<u>1,587,500</u>
		=====

*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

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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.

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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").

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 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

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Three months ended March 31, 2015:					
Revenues	\$1,558,000	\$ 144,600	\$ 26,600	\$ -	\$1,729,200
Foreign Sales	813,900	81,100	-	-	895,000
Income (Loss) from					
Operations	120,600	(50,400)	(33,500)	-	36,700

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Assets	4,165,700	1,506,700	783,400	555,800	7,011,600
Long-Lived Asset					
Expenditures	900	-	3,700	-	4,600
Depreciation and					
Amortization	74,700	7,900	24,500	-	107,100

Approximately 50% and 53% of net sales of benchtop laboratory equipment for the three month periods ended March 31, 2016 and 2015, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 22% and 21% of total benchtop laboratory equipment sales were derived from the Torbal Scales Division for the three months ended March 31, 2016 and 2015, respectively.

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Two benchtop laboratory equipment customers accounted for approximately 19% and 18% of the segment's net sales for the three month periods ended March 31, 2016 and 2015 (15% and 17% 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, 2016 and two different customers in the three months ended March 31, 2015, accounted respectively for 86% and 64% of the segment's net sales for each of the periods (19% and 5% of total revenues for the respective periods).

	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

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Nine months ended March 31, 2015:					
Revenues	\$3,891,400	\$1,115,300	\$ 75,700	\$ -	\$5,082,400

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Foreign Sales	1,947,400	840,300	-	-	2,787,700
Loss from					
Operations (64,700)	(191,200)	(118,600)	-	(374,500)
Assets	4,165,700	1,506,700	783,400	555,800	7,011,600
Long-Lived Asset					
Expenditures	52,400	900	7,600	-	60,900
Depreciation and					
Amortization	227,000	26,900	73,300	-	327,200

Approximately 50% of net sales of benchtop laboratory equipment for both the nine month periods ended March 31, 2016 and 2015, were derived from sales of the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 21% and 20% of total benchtop laboratory equipment sales for the nine months ended March 31, 2016 and 2015, respectively, were derived from sales of the Torbal Scales Division.

Two benchtop laboratory equipment customers, accounted for approximately 15% and 17% of the segment's net sales (12% and 13% of total revenues) for the nine month periods ended March 31, 2016 and 2015, respectively.

Sales of catalyst research instruments to four customers in the nine months ended March 31, 2016 and to seven other customers in the nine months ended March 31, 2015 accounted for approximately 87% and 97% of that segment's net sales (16% and 19% of total revenues) for the respective nine month periods.

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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.

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 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.

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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 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, 2016 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 March 31, 2016	Level 1	Level 2	Level 3
Cash and cash equivalents	\$1,081,000	\$1,081,000	\$ -	\$ -
Restricted cash	300,000	300,000	-	-
Available for sale securities	282,300	282,300	-	-
Total	\$1,663,300	\$1,663,300	\$ -	\$ -
	=====	=====	=====	=====
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 March 31, 2016 and June 30, 2015 consisted of the following:

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	Cost	Fair Value	Unrealized Holding Gain (Loss)
At March 31, 2016:			
Available for sale:			
Equity securities	\$ 29,300	\$ 39,700	\$ 10,400
Mutual funds	258,200	242,600	(15,600)
	<u>\$ 287,500</u>	<u>\$ 282,300</u>	<u>\$ (5,200)</u>
	=====	=====	=====

	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)
	<u>\$ 285,100</u>	<u>\$ 281,800</u>	<u>\$ (3,300)</u>
	=====	=====	=====

6. Inventories:

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

	March 31, 2016	June 30, 2015
Raw Materials	\$1,465,500	\$1,420,800
Work in process	1,805,700	442,900
Finished Goods	403,700	350,000
	<u>\$3,674,900</u>	<u>\$2,213,700</u>
	=====	=====

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 (loss) per common share include the dilutive effect of stock options, if any.

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

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	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2016	2015	2016	2015
Net income (loss)	(\$ 36,900)	\$ 19,000	(\$ 2,600)	(\$ 280,300)
Weighted average common shares outstanding	1,489,112	1,479,112	1,489,112	1,477,375
Effect of dilutive securities	-	-	-	-
Weighted average dilutive common shares outstanding	1,489,112	1,479,112	1,489,112	1,477,375
Basic earnings (loss) per common share	(\$.02)	\$.01	\$.00	(\$.19)
Diluted earnings (loss) per common share	(\$.02)	\$.01	\$.00	(\$.19)

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 nine month periods ended March 31, 2016 and 2015, 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 acquisitions. Goodwill amounted to \$705,300 as of March 31, 2016 and June 30, 2015, respectively, all of which is deductible for tax purposes.

The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At March 31, 2016:				
Technology, trademarks	5/10 yrs.	\$1,215,800	\$ 715,900	\$ 499,900
Trade names	6 yrs.	140,000	46,700	93,300
Websites	5 yrs.	210,000	87,500	122,500
Customer relationships	9/10 yrs.	357,000	254,100	102,900
Sublicense agreements	10 yrs.	294,000	128,600	165,400
Non-compete agreements	5 yrs.	384,000	225,000	159,000
intellectual property, research & development (IPR&D)	3 yrs.	110,000	76,300	33,700
Other intangible assets	5 yrs.	171,400	152,700	18,700
		<u>\$2,882,200</u>	<u>\$1,686,800</u>	<u>\$1,195,400</u>

	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
		<u>\$2,885,800</u>	<u>\$1,433,900</u>	<u>\$1,451,900</u>
		=====	=====	=====

Total amortization expense was \$89,400 and \$86,900 for the three months ended March 31, 2016 and 2015, respectively and \$263,200 for both the nine months ended March 31, 2016 and 2015. As of March 31, 2016, estimated future amortization expense related to intangible assets is \$71,200 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 \$136,200 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

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Cash and cash equivalents increased \$599,000 to \$1,081,000 as of March 31, 2016 from \$482,000 as of June 30, 2015.

Operating activities used cash of \$214,900 for the nine month period ended March 31, 2016 as compared to the \$194,900 for the nine month period ended March 31, 2015. The current year period reflected higher amounts of work-in-progress inventories for the Catalyst Research Instruments Operations related to a significant impending order to be shipped overseas, partially offset by lower accounts receivable balances and increases in accounts payable, customer advances, and accrued expenses. Net cash used in investing activities was \$55,200 for the nine months ended March 31, 2016 compared to net cash provided of \$62,300 for the comparable period last year primarily due to the lack of investment securities redemptions in the current year. Net cash provided by financing activities was \$869,100 for the nine months ended March 31, 2016 compared to \$6,800 used in the comparable prior year period primarily due to the proceeds from the export-related line of credit to finance the inventories for a significant catalyst research instrument order for overseas.

The Company's working capital increased by \$99,300 to \$3,510,600 as of March 31, 2016 from \$3,411,300 at June 30, 2015.

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 collateralized 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 March 31,

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2016 \$970,000 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, including its cash and cash equivalents, the line of credit and investment securities.

Results of Operations

Financial Overview

The Company reported a loss before income tax benefit amounting to \$48,300 and \$3,100, respectively, for the three and nine month periods ended March 31, 2016, compared to \$31,600 of income before income tax expense and a \$373,800 loss before income tax benefit for the three and nine month periods ended March 31, 2015, respectively. The results

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reflect non-cash amounts for depreciation and amortization of \$108,300 and \$319,100 for the three and nine months ended March 31, 2016 compared to \$107,100 and \$327,200 for the prior periods, respectively.

The loss for the current three month period compared to the prior year period's income is due primarily to lower sales of benchtop laboratory equipment compared to the prior year period which benefitted from an unusual backlog related to the facility move in the prior year, and lower overseas sales of benchtop laboratory equipment. The improvement in the current year nine month period's operating results is primarily due to higher sales and margins generated by the Benchtop Laboratory Equipment Operations which benefitted from some large orders from overseas and the absence of moving expenses incurred in the prior year period.

The Three Months Ended March 31, 2016 Compared With the Three Months Ended March 31, 2015

Net revenues for the three months ended March 31, 2016 decreased by \$54,900 (3.2%) to \$1,674,300 from \$1,729,200 for the three months ended March 31, 2015 as a result of a \$278,700 decrease in benchtop laboratory equipment sales, partially offset by increases of \$220,300 and \$3,500 in catalyst research instrument sales and bioprocessing systems revenues, respectively. Sales of benchtop laboratory equipment products generally comprise many small 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 \$3,027,000 as of March 31, 2016, most of which is expected to be delivered by fiscal year end, as compared to the backlog of \$1,154,000 as of March 31, 2015. The Benchtop Laboratory Equipment Operations sales included \$248,300 and \$287,500 of Torbal brand product sales for the three months ended March 31, 2016 and 2015, respectively.

The gross profit for the three months ended March 31, 2016 was 40.7% compared to 44.4% for the three months ended March 31, 2015, due primarily to sales mix, partially offset by lower overhead costs of the Benchtop Laboratory Equipment Operations.

General and administrative expenses for the three months ended March 31, 2016 decreased \$7,200 (1.7%) to \$426,700 compared to \$433,900 for the three months ended March 31, 2015, primarily due to decreased travel expenses for the Bioprocessing Systems Operations.

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Selling expenses for the three months ended March 31, 2016 decreased \$6,000 (3.0%) to \$196,200 from \$202,200 for the three months ended March 31, 2015, primarily due to decreased sales commissions for catalyst research instruments due to sales mix.

Research and development expenses for the three months ended March 31, 2016 decreased slightly to \$93,400 from \$94,500 for the three months ended March 31, 2015.

Total other expense amounted to \$13,200 for the three months ended March 31, 2016 compared to expense of \$5,100 for the three months

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ended March 31, 2015 due primarily to increased interest expense.

The Company recorded an income tax benefit of \$11,400 for the three months ended March 31, 2016 compared to income tax expense of \$12,600 for the three months ended March 31, 2015 due to the loss for the current period.

As a result of the foregoing, the net loss was \$36,900 for the three months ended March 31, 2016, compared to net income of \$19,000 for the three months ended March 31, 2015.

Nine Months Ended March 31, 2016 Compared With the Nine Months Ended March 31, 2015

Net revenues increased by \$64,500 (1.3%) to \$5,146,900 for the nine months ended March 31, 2016 compared to \$5,082,400 for the nine months ended March 31, 2015, due to increases of \$234,500 in benchtop laboratory equipment and \$13,000 in bioprocessing revenues; partially offset by decreases of \$183,000 in catalyst research instrument sales. The 2016 benchtop laboratory equipment sales included \$850,500 of Torbal brand product sales compared to \$797,300 in the prior year period.

The gross profit percentage for the nine months ended March 31, 2016 increased to 41.1% compared to 38.5% for the nine months ended March 31, 2015, due principally to product mix and lower overhead costs of the Benchtop Laboratory Equipment Operations.

General and administrative expenses decreased by \$56,000 (4.4%) to \$1,230,500 for the nine months ended March 31, 2016 from \$1,286,500 for the comparable period of the prior year, due primarily to the absence of the costs associated with the move of the Company's principal facility in the prior year.

Selling expenses for the nine months ended March 31, 2016 decreased by \$136,500 (18.8%) to \$590,400 from \$726,900 for the nine months ended March 31, 2015, 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 nine months ended March 31, 2016 decreased by \$54,700 (17.2%) to \$263,000 from \$317,700 for the nine months ended March 31, 2015, primarily due to decreased new product development expenses by the Company's Benchtop Laboratory Equipment Operations as new products were completed and are being launched.

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Total other expense was \$33,200 for the nine month period ended March 31, 2016 compared to income of \$700 for the nine month period ended March 31, 2015 due to the increased interest expense.

Income tax benefit for the nine months ended March 31, 2016 was \$500 compared to \$93,500 for the nine months ended March 31, 2015.

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As a result of the foregoing, the net loss for the nine months ended March 31, 2016 was \$2,600 compared to \$280,300 for the nine months ended March 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.

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Part II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Number:	Description
4(c)	Amendment to the Company's 2012 Stock Option Plan.
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(b) Reports on Form 8-K:

Filed on January 12, 2016 reporting under
Items 1.01 and 5.07.

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

SIGNATURE

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

Scientific Industries, Inc.
Registrant

/s/Helena R. Santos

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

Date: May 12, 2016

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