SCIENTIFIC INDUSTRIES INC
Form 10-Q
February 13, 2014

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, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_________to_________

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	04-2217279
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

70 Orville Drive, Bohemia, New York	11716
(Address of principal executive offices)	(Zip Code)

(631)567-4700

(Registrant=s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

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

Large accelerated filer Accelerated Filer _________

Non-accelerated filer Smaller reporting company [X]
(Do not check if a smaller reporting company)

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

defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [x]

The number of shares outstanding of the issuer's common stock par value, $0.05 per share, as of February 2, 2014 was 1,342,663 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, 2013 (Unaudited)	June 30, 2013
Current Assets:		
Cash and cash equivalents	$1,109,000	$ 927,300
Investment securities	643,800	908,400
Trade accounts receivable, net	926,800	815,900
Inventories	1,871,200	1,705,600
Prepaid expenses and other current assets	84,300	59,000
Deferred taxes	88,800	86,600
Total current assets	4,723,900	4,502,800
Property and equipment at cost, net	148,800	156,500
Intangible assets, net	719,300	773,500
Goodwill	589,900	589,900
Other assets	24,100	24,100
Deferred taxes	97,200	106,200
Total assets	$6,303,200	$6,153,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2013 (Unaudited)	June 30, 2013
Current Liabilities:		
Accounts payable	$ 151,100	$ 156,800
Customer advances	210,700	15,900
Bank line of credit	50,000	-
Notes payable, current	66,200	78,300
Accrued expenses and taxes	313,600	407,700
Contingent consideration payable, current	19,000	19,000
Total current liabilities	810,600	677,700
Contingent consideration payable, less current portion	51,600	51,600
Notes payable, less current portion	-	26,700
Total liabilities	862,200	756,000
Shareholders' equity:		
Common stock, $.05 par value; authorized 7,000,000 shares; 1,362,465 issued and outstanding at December 31, 2013 and 1,357,465 at June 30, 2013	68,100	67,900
Additional paid-in capital	1,993,700	1,977,100
Accumulated other comprehensive loss	(16,200)	(13,600)
Retained earnings	3,447,800	3,418,000

	5,493,400	5,449,400
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	5,441,000	5,397,000
Total liabilities and shareholders' equity	$6,303,200	$6,153,000

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2013	2012	2013	2012
Revenues	$1,747,800	$1,876,900	$3,183,900	$3,228,600
Cost of sales	929,700	1,046,600	1,771,600	1,934,000
Gross profit	818,100	830,300	1,412,300	1,294,600
Operating Expenses:				
General & administrative	342,900	309,600	645,900	589,200
Selling	207,900	191,100	404,900	347,400
Research & development	90,800	135,100	188,000	255,200
Total operating expenses	641,600	635,800	1,238,800	1,191,800
Income from operations	176,500	194,500	173,500	102,800
Other income (expense):				
Investment income	5,400	3,100	8,500	5,900
Other	2,200	(1,600)	5,900	900
Interest expense	(1,000)	(1,300)	(1,800)	(2,700)
Total other income, net	6,600	200	12,600	4,100
Income before income taxes	183,100	194,700	186,100	106,900
Income tax expense:				
Current	44,800	51,800	41,700	21,200
Deferred	3,200	4,500	7,200	9,500
Total income tax expense	48,000	56,300	48,900	30,700

Net income	$ 135,100	$ 138,400	$ 137,200	$ 76,200
Basic earnings per common share	$ .10	$ .10	$ .10	$ .06
Diluted earnings per common share	$ .10	$ .10	$ .10	$ .06
Cash dividends declared per common share	$ .00	$ .00	$ .08	$ .03

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended December 31,		For the Six Month Periods Ended December 31,	
	2013	2012	2013	2012
Net income	$135,100	$138,400	$137,200	$ 76,200
Other comprehensive income (loss):				
Unrealized holding gain (loss) arising during period, net of tax	(800)	3,300	(2,600)	12,900
Comprehensive income	$134,300	$141,700	$134,600	$ 89,100

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, 2013	December 31, 2012
Operating activities:		
Net income	$ 137,200	$ 76,200
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss on sale of investments	10,500	4,800
Depreciation and amortization	88,500	89,000
Deferred income tax	7,200	9,500
Stock-based compensation	10,200	6,700
Changes in operating assets and liabilities:		
Accounts receivable	(110,900)	(319,300)
Inventories	(165,600)	(221,000)
Prepaid expenses and other current assets	(25,300)	81,600
Other assets	-	1,600
Accounts payable	(5,700)	27,500
Customer advances	194,800	257,900
Accrued expenses and taxes	(94,100)	(15,700)
Total adjustments	(90,400)	(77,400)
Net cash provided by (used in) operating activities	46,800	(1,200)
Investing activities:		
Purchase of investment securities, available-for-sale	(24,300)	(710,300)
Capital expenditures	(24,600)	(25,200)
Purchase of intangible assets	(1,900)	(2,100)
Redemption of investment securities, available for sale	275,300	717,600
Net cash provided by (used in) investing activities	224,500	(20,000)
Financing activities:		
Line of credit proceeds	50,000	-
Proceeds from exercise of stock options	6,700	-
Cash dividend declared and paid	(107,400)	(40,100)
Principal payments on note payable	(38,900)	(37,600)
Net cash used in financing activities	(89,600)	(77,700)
Net increase (decrease) in cash and cash equivalents	181,700	(98,900)
Cash and cash equivalents, beginning of year	927,300	769,300
Cash and cash equivalents, end of period	$1,109,000	$ 670,400
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	$ 100,000	$ -
Interest	1,800	2,700

See notes to unaudited condensed consolidated financial statements

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

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and that they are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended June 30, 2013. The results for the three and six months ended December 31, 2013, are not necessarily an indication of the results for the full fiscal year ending June 30, 2014.

1. Summary of significant accounting policies:

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of Scientific Industries, Inc. ("Scientific", a Delaware corporation), Altamira Instruments, Inc.("Altamira", a wholly owned subsidiary and Delaware corporation), Scientific Packaging Industries, Inc. (an inactive wholly owned subsidiary and New York corporation) and Scientific Bioprocessing, Inc., ("SBI", a wholly owned subsidiary and Delaware corporation). All are collectively referred to as the "Company". All material intercompany balances and transactions have been eliminated.

2. New Accounting Pronouncements:

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), which clarifies the presentation requirements of unrecognized tax benefits when a net operating loss carries forward, a similar tax loss, or a tax credit carry forward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied prospectively. The adoption of this ASU is not expected to have a material impact to the Company's consolidated financial statements.

3. Acquisition:

On November 14, 2011, the Company through SBI acquired substantially all of the assets of a privately owned company consisting principally of a license and sublicenses under patents held by the University of Maryland, Baltimore County ("UMBC") with respect to the design, development and production of bioprocessing methods, systems and products. The acquisition was pursuant to an asset purchase agreement("APA") whereby the Company paid to the seller $260,000 in cash, issued 135,135 shares of Common Stock valued at $400,000, issued to UMBC a $230,000 36-month note payable, and agreed to make additional cash payments equal to 30% of net royalties received under the acquired license and sublicenses, estimated at a present value of $128,000 on the date of acquisition.

SBI's revenues are derived from royalties received by SBI under the various sublicense agreements, net of royalty payments due to UMBC and revenues from sales of certain products being developed under its existing license. University, government, and industrial laboratories working primarily in the biotechnology industry worldwide are its targeted customers.

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

Technology, trademarks, and in-process research & development ("IPR&D")	$ 500,000
Sublicense agreements	294,000
Engineering drawings and software	64,000
Non-competition agreements	18,000
Goodwill*	142,000
Total Purchase Price	$1,018,000

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

The amounts allocated to Technology, Trademarks, and IPR&D and Sublicense Agreements are deemed to have a useful life of 10 years, and to the remaining intangible assets to have a useful life of 5 years, all of which are being amortized on a straight-line basis, except for goodwill.

In connection with the acquisition, SBI entered into a research and development agreement providing for the seller to perform services with respect to the research and development of bioprocessing methods, systems, and products pursuant to programs set forth in the Agreement at a fee of $14,000 per month plus all related expenses. The agreement was terminated in June 2013 as a result of the death of the seller's chief operating officer.

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 December 31, 2013:					
Revenues	$1,154,000	$ 463,400	$ 130,400	$ -	$1,747,800
Foreign Sales	823,400	88,900	-	-	912,300
Income (Loss) from Operations	119,800	2,100	64,600	(10,000)	176,500
Assets	2,787,400	1,704,400	981,600	829,800	6,303,200
Long-Lived Asset Expenditures	10,100	-	6,000	-	16,100
Depreciation and Amortization	11,600	8,500	24,200	-	44,300

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

Approximately 65% and 73% of net sales of benchtop laboratory equipment (43% and 46% of total net sales) for the three month periods ended

December 31, 2013 and 2012, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Two customers accounted in the aggregate for approximately 25% and 24% of the net sales of the Benchtop Laboratory Equipment Operations and 17% and 15% of total revenues for the three months ended December 31, 2013, and 2012, 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 customers and four customers represented approximately 91% and 95% of the Catalyst Research Instrument Operations' net sales, respectively, and 24% and 34% of total revenues for the three months ended December 31, 2013 and 2012, respectively.

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio-processing Systems	Corporate and Other	Conso-lidated
Six months ended December 31, 2013:					
Revenues	$2,223,700	$ 803,100	$ 157,100	$ -	$3,183,900
Foreign Sales	1,444,200	162,400	2,000	-	1,608,600
Income (Loss) from Operations	238,100	(101,900)	47,800	(10,500)	173,500
Assets	2,787,400	1,704,400	981,600	829,800	6,303,200
Long-Lived Asset Expenditures	20,000	-	6,500	-	26,500
Depreciation and Amortization	22,600	17,600	48,300	-	88,500

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

Approximately 66% and 68% of net sales of benchtop laboratory equipment (46% and 47% of total revenues) for the six month periods ended December 31, 2013 and 2012, 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 21% and 23% of the segment's net sales for the six month periods ended December 31, 2013 and 2012, and 14% and 16%, of total revenues for the six month periods ended December 31, 2013 and 2012, respectively.

Sales of catalyst research instruments to six and four different customers in each of the six month periods, accounted for approximately 92% and 67% of the segment's net sales and 23% and 20% of total revenues for the six month periods ended December 31, 2013 and 2012, 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 the 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, 2013 and June 30, 2013 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, 2013	Level 1	Level 2	Level 3
Cash and cash equivalents	$1,109,000	$1,109,000	$ -	$ -
Available for sale securities	643,800	643,800	-	-
Total	$1,752,800	$1,752,800	$ -	$ -
Liabilities:				

Contingent consideration	$ 70,600	$ -	$ -	$ 70,600

Fair Value Measurements Using Inputs Considered as

Assets:	Fair Value at June 30, 2013	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 927,300	$ 927,300	$ -	$ -
Available for sale securities	908,400	908,400	-	-
Total	$1,835,700	$1,835,700	$ -	$ -
Liabilities:				
Contingent consideration	$ 70,600	$ -	$ -	$ 70,600

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Investments in marketable securities classified as available-for-sale by security type at December 31, 2013 and June 30, 2013 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At December 31, 2013:			
Available for sale			
Equity securities	$ 29,300	$ 37,000	$ 7,700
Mutual funds	630,700	606,800	(23,900)
	$ 660,000	$ 643,800	$ (16,200)

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2013:			
Available for sale:			
Equity securities	$ 29,300	$ 33,200	$ 3,900
Mutual funds	892,700	875,200	(17,500)
	$ 922,000	$ 908,400	$ (13,600)

6. Inventories:

Inventories for financial statement purposes are based on perpetual inventory records at December 31, 2013 and based on a physical count as of June 30, 2013. Components of inventory are as follows:

	December 31, 2013	June 30, 2013
Raw Materials	$1,358,300	$1,336,800
Work in process	396,300	254,000
Finished Goods	116,600	114,800
	$1,871,200	$1,705,600

7. Earnings per common share:

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

Earnings per common share was computed as follows:

	For the Three Month Periods Ended December 31,		For the Six Month Period Ended December 31,	
	2013	2012	2013	2012
Net income	$ 135,100	$ 138,400	$ 137,200	$ 76,200
Weighted average common shares outstanding	1,342,663	1,337,175	1,340,163	1,336,444
Dilutive securities	6,327	3,765	6,867	4,463
Weighted average dilutive common shares outstanding	1,348,990	1,340,940	1,347,030	1,340,907
Basic earnings per common share	$ .10	$ .10	$ .10	$ .06
Diluted earnings per common share	$ .10	$ .10	$ .10	$ .06

Approximately 5,000 and 28,500 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 six month periods ended December 31, 2013, because the effect would be anti-dilutive.

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

8. Goodwill and Other Intangible Assets:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisition of Altamira and SBI's acquisition of assets. Goodwill amounted to $589,900 as of December 31, 2013 and June 30, 2013, 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, 2013:				
Technology, trademarks	5/10 yrs.	$ 865,900	$ 433,600	$ 432,300
Customer relationships	10 yrs.	237,000	207,800	29,200
Sublicense agreements	10 yrs.	294,000	62,500	231,500
Non-compete agreements	5 yrs.	114,000	107,100	6,900
Other intangible assets	5 yrs.	157,400	138,000	19,400
		$1,668,300	$ 949,000	$ 719,300

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2013:				
Technology, trademarks	5/10 yrs.	$ 865,400	$ 402,100	$ 463,300
Customer relationships	10 yrs.	237,000	203,200	33,800
Sublicense agreements	10 yrs.	294,000	47,800	246,200
Non-compete agreements	5 yrs.	114,000	105,900	8,100
Other intangible assets	5 yrs.	156,000	133,900	22,100
		$1,666,400	$ 892,900	$ 773,500

Total amortization expense was $28,100 and $28,600 for the three months ended December 31, 2013 and 2012, respectively and $56,200 and $57,400 for the six months ended December 31, 2013 and 2012, respectively. As of December 31, 2013, estimated future amortization expense related to intangible assets is $54,600 for the remainder of the fiscal year ending June 30, 2014, $106,600 for fiscal 2015, $110,800 for fiscal 2016, $95,600 for fiscal 2017, $81,100 for fiscal 2018, and $270,600 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 $181,700 to $1,109,000 as of December 31, 2013 from $927,300 as of June 30, 2013.

Net cash provided by operating activities was $46,800 for the six months ended December 31, 2013 as compared to $1,200 used in operating activities for the six months ended December 31, 2012, due mainly to higher income. Cash provided by investing activities was $224,500 for the six month period ended December 31, 2013 compared to $20,000 used in the six month period ended December 31, 2012, due to redemption in the earlier period of certain investment securities. The Company reflected cash used in financing activities of $89,600 in the current year period compared to $77,700 in the prior year comparable period, primarily due to the higher dividend in the current year, partially offset by a $50,000 borrowing under the Company's bank line of credit.

On September 20, 2013, the Board of Directors of the Company declared a cash dividend of $.08 per share of Common Stock which was paid on November 4, 2013 to holders of record as of the close of business on October 11, 2013.

The Company's working capital increased by $88,200 to $3,913,300 as of December 31, 2013 from working capital of $3,825,100 at June 30, 2013, mainly due to the income for the period.

The Company has a line of credit with its bank, JPMorgan Chase Bank, N.A. which provides for maximum borrowings of up to $700,000, bearing interest at 3.05 percentage points above a defined LIBOR Index. The interest rate as of December 31, 2013 was approximately 3.22% and any borrowing is to be secured by a pledge of collateral consisting of the inventory, accounts, chattel paper, equipment and general intangibles of the Company. Outstanding amounts are due and payable by June 14, 2014 with a requirement that the Company is to reduce the outstanding principal balance to zero during the 30 day period ending on the anniversary date of the promissory note. As of December 31, 2013 $50,000 was outstanding under the line and zero at June 30, 2013.

Management believes that the Company will be able to meet its cash flow needs during the next 12 months from its available financial resources which include its cash and investment securities.

Results of Operations

Financial Overview

The Company recorded income before income taxes of $183,100 and $194,700 for the three month periods ended December 31, 2013 and 2012, respectively. The decrease was primarily due to lower sales during the period by the Company's Catalyst Research Instruments Operations, partially offset by the profit derived from an order for bioprocessing product prototypes that had minimal costs associated with the order, since the costs had been previously expensed as product development costs.

The Company reflected income before income taxes of $186,100 and $106,900 for the six month periods ended December 31, 2013 and 2012, respectively. The increase was principally due to the profit related to the Bioprocessing Systems Operations as described above, and lower product development costs for the Bioprocessing Systems Operations.

The Three Months Ended December 31, 2013 Compared With the Three Months Ended December 31, 2012

Net sales for the three months ended December 31, 2013 decreased by $129,100 (6.9%) to $1,747,800 from $1,876,900 for the three months ended December 31, 2012 as a result of a $201,500 decrease in sales by the Catalyst Research Instruments Operations and a $10,900 decrease in sales by the Laboratory Equipment Operations, offset by a $83,300 increase in revenues of the Bioprocessing Systems Operations. Sales of the benchtop laboratory equipment products generally are pursuant to many small purchase orders from distributors, while catalyst research instruments are sold pursuant to a small number of larger orders, typically averaging over $100,000 each, resulting in significant swings in revenues. The backlog of orders for catalyst research instruments was $1,063,900 as of December 31, 2013, all of which are anticipated to be delivered by June 30, 2014; the back log as of December 31, 2012 was $1,452,300. The revenues generated by the Bioprocessing Systems Operations included a one-time order for prototype bioprocessing products of approximately $100,000, with the remaining revenues being derived from royalties for the related products still under development.

The increase in gross profit percentage for the three months ended December 31, 2013 to 46.8% from 44.2% for the year earlier three month period was primarily the result of the low costs related to the bioprocessing products prototype order.

General and administrative expenses for the three month comparative periods ended December 31, 2013 and December 31, 2012 increased by $33,300 (10.8%) to $342,900 from $309,600 primarily due to expenses related to the recently announced proposed acquisition. In December 2013, the Company entered into an agreement in principle to acquire from a privately held company, its laboratory and pharmacy balance and digital scale business and substantially all its related assets. The consideration is to consist of cash, shares of the Company's Common Stock and commissions based on future sales of the balance and scale products over a period from closing through June 30, 2017 with an

aggregate value of approximately $1,700,000. The proposed acquisition agreement is to contain several conditions to consummation of the acquisition including the execution by the principals of long term non-competition agreements, a long-term employment agreement with the seller's principal manager, and a long-term supply agreement with its principal supplier of related products. No assurance can be given that the proposed acquisition will be completed or if completed, on the foregoing terms.

Selling expenses for the three months ended December 31, 2013 increased by $16,800 (8.8%) to $207,900 from $191,100 for the three months ended December 31, 2012, primarily the result of increased selling activities by the Bioprocessing Systems Operations and dealer-related activities for the Laboratory Equipment Operations.

Research and development expenses for the three months ended December 31, 2013 decreased $44,300 (32.8%) to $90,800 from $135,100 for the three months ended December 31, 2012, primarily the result of a reduction of product development expenses by the Company's Bioprocessing Systems Operations due to the use of lower cost consultants.

Total other income for the three month period ended December 31, 2013 increased by $6,400 to $6,600 from $200 for the three month period ended December 31, 2012, mainly due to increased investment income and miscellaneous income items.

As a result income before income taxes for the three months ended December 31, 2013, was $183,100 compared to $194,700 for the three months ended December 31, 2012, and income tax expense was $48,000 compared to $56,300 for the three months ended December 31, 2012.

The Six Months Ended December 31, 2013 Compared With the Six Months Ended December 31, 2012

Net sales for the six months ended December 31, 2013 decreased by $44,700 (1.4%) to $3,183,900 compared to $3,228,600 for the six months ended December 31, 2012, due to decreases of $146,100 in catalyst research instrument sales and $6,000 in benchtop laboratory equipment sales, partially offset by an increase in revenues(one order of approximately $100,000) for bioprocessing products. 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 revenues generated by the Bioprocessing Systems Operations reflected a one-time order for prototype bioprocessing products of approximately $100,000, with the remaining revenues being derived from royalties. The related products are still under development.

The gross profit percentage for the six months ended December 31, 2013 increased to 44.4% compared to 40.1% for the six months ended December 31, 2012, due to increased gross margins for all operations.

General and administrative expenses increased by $56,700 (9.6%) to $645,900 for the six months ended December 31, 2013 from $589,200 for the comparable period of the prior year, due to increases in various expenses, including the proposed acquisition (see above), board meetings, and related expenses.

Selling expenses for the six months ended December 31, 2013 increased by $57,500 (16.6%) to $404,900 from $347,400 for the six months ended December 31, 2012, primarily the result of increased dealer-related activities for the Benchtop Laboratory Equipment Operations, and commissions and exhibitions expense for the Catalyst Research Instruments Operations.

Research and development expenses for the six months ended December 31, 2013 decreased $67,200 (26.3%) to $188,000 compared to $255,200 for the six months ended December 31, 2012, primarily the result of a reduction of product development expenses by the Company?s Bioprocessing Systems Operations due to the use of lower-cost consultants.

Total other income for the six month period ended December 31, 2013 increased by $8,500 to $12,600 from $4,100 for the six month period ended December 31, 2012, mainly due to increased investment income and miscellaneous items.

As a result, income tax expense for the six month period ended December 31, 2013 was $48,900 compared to $30,700 for the comparable period of the prior fiscal year, and net income for the six months ended December 31, 2013 was $137,200 compared to $76,200 for the six months ended December 31, 2012.

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.

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(b) Reports on Form 8-K:

Report dated December 2, 2013 reporting under Item 8.01.

Report dated December 13, 2013 reporting under Item 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: February 13, 2014