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SCIENTIFIC INDUSTRIES INC
Form 10-Q
November 13, 2014

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 September 30, 2014

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), except for a Report on Form 8-K required to be filed in February 2014 with respect to an acquisition 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 small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer _____ Accelerated Filer _____

Non-accelerated filer _____ Smaller reporting company
(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).

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Yes X No

The number of shares outstanding of the issuer's common stock par value, \$0.05 per share, as of October 3, 2014 was 1,479,112 shares.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

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SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2014	June 30, 2014
Current Assets:	(Unaudited)	
Cash and cash equivalents	\$ 388,100	\$ 493,700
Investment securities	338,000	415,400
Trade accounts receivable, net	795,300	756,700
Inventories	2,282,900	2,309,200
Prepaid expenses and other current assets	184,800	123,100
Deferred taxes	86,700	86,000
Total current assets	4,075,800	4,184,100
Property and equipment at cost, net	249,800	252,100
Intangible assets, net	1,708,900	1,795,900
Goodwill	705,300	705,300
Other assets	53,600	28,200
Deferred taxes	150,300	146,200
Total assets	\$6,943,700	\$7,111,800
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 342,100	\$ 373,700
Customer advances	92,800	89,500
Bank line of credit	200,000	-
Notes payable, current portion	6,900	26,700
Accrued expenses and taxes	358,900	442,800
Contingent consideration, current portion	120,000	109,000
Total current liabilities	1,120,700	1,041,700
Contingent consideration payable, less current portion	281,100	391,000
Total liabilities	1,401,800	1,432,700
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,498,914 and 1,488,914 issued and outstanding at September 30, 2014 and June 30, 2014	74,900	74,400
Additional paid-in capital	2,445,000	2,420,700
Accumulated other comprehensive gain, unrealized holding gain on investments	400	1,100
Retained earnings	3,074,000	3,235,300
	5,594,300	5,731,500
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	5,541,900	5,679,100

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Total liabilities and shareholders' equity	\$6,943,700 =====	\$7,111,800 =====
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See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended September 30,	
	2014	2013
Revenues	\$1,662,100	\$1,436,100
Cost of sales	1,161,900	841,900
Gross profit	500,200	594,200
Operating Expenses:		
General and administrative	326,500	303,000
Selling	295,300	197,000
Research and development	107,100	97,200
Total operating expenses	728,900	597,200
Loss from operations	(228,700)	(3,000)
Other income (expense):		
Investment income	800	3,100
Other income	6,200	3,700
Interest expense	(1,200)	(800)
Total other income, net	5,800	6,000
Income (loss) before income tax expense (benefit)	(222,900)	3,000
Income tax expense (benefit):		
Current	(57,200)	(3,100)
Deferred	(4,400)	4,000
Total income tax expense (benefit)	(61,600)	900
Net income (loss)	(\$ 161,300) =====	\$ 2,100 =====
Basic earnings (loss) per common share	(\$.11) =====	\$.00 =====
Diluted earnings (loss) per common share	(\$.11) =====	\$.00 =====
Cash dividends declared		

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per common share	\$ -	\$.08
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended September 30,	
	2014	2013
Net income (loss)	(\$161,300)	\$ 2,100
Other comprehensive loss:		
Unrealized holding loss arising during period, net of tax	(700)	(1,800)
Comprehensive income (loss)	(\$162,000)	\$ 300
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended	
	Sept. 30, 2014	Sept. 30, 2013
Operating activities:		
Net income (loss)	(\$ 161,300)	\$ 2,100
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Loss on sale of investments	1,300	-
Depreciation and amortization	110,100	44,200
Deferred income taxes	(4,400)	4,000
Stock-based compensation	1,000	800
Income tax benefit of stock options		

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exercised	4,900	-
Changes in operating assets and liabilities:		
Accounts receivable	(38,500)	100
Inventories	26,300	(77,800)
Prepaid expenses and other		
current assets	(61,600)	(46,900)
Other assets	(25,400)	-
Accounts payable	(31,500)	5,000
Customer advances	3,300	27,500
Accrued expenses and taxes	(83,900)	(118,100)
Total adjustments	(98,400)	(161,200)
Net cash used in operating activities	(259,700)	(159,100)
Investing activities:		
Redemption of investment securities, available-for-sale	75,000	-
Purchase of investment securities, available-for-sale	-	(5,700)
Capital expenditures	(19,700)	(8,500)
Purchases of intangible assets	(1,100)	(1,900)
Net cash provided by (used in) investing activities	54,200	(16,100)
Financing activities:		
Line of credit proceeds	200,000	-
Payment of contingent consideration	(98,900)	-
Proceeds from exercise of stock options	18,800	-
Principal payments on note payable	(20,000)	(19,400)
Net cash provided by (used in) financing activities	99,900	(19,400)

See notes to unaudited condensed consolidated financial statements

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

For the Three Month Periods Ended
Sept. 30, 2014 Sept. 30, 2013

Net decrease in cash and cash equivalents	(105,600)	(194,600)
Cash and cash equivalents,		

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beginning of year`	493,700	927,300
Cash and cash equivalents, end of period	\$ 388,100	\$ 732,700
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$ 3,500	\$ 100,000
Interest	1,200	800
Non-cash investing and financing activities (Note 3)		

See notes to unaudited condensed consolidated financial statements

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

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and that they are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended June 30, 2014. The results for the three months ended September 30, 2014, are not necessarily an indication of the results for the full fiscal year ending June 30, 2015.

1. Summary of significant accounting policies:

Principles of consolidation:

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

2. New Accounting Pronouncements:

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

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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. The update is effective for the Company beginning July 1, 2017. Early adoption is not permitted. The Company is currently evaluating the impact this guidance may have on its financial condition and results of operations.

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

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services period be treated as a performance condition. The new standard will be effective for the Company beginning July 1, 2015, 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.

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 (of which 31,612 are held in escrow for one year) and agreed to make additional cash payments based on a percentage of net sales of the business acquired equal to 8% for the period ending June 30, 2014 annualized, 9% for the year ending June 30, 2015, 10% for the year ending June 30, 2016 and 11% for the year ending June 30, 2017, estimated at a present value of \$460,000 on the date of acquisition. Payments related to this contingent consideration for each period are due in September following the fiscal year.

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

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

Current assets	\$ 144,000
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Property and equipment	118,100
Goodwill*	115,400
Other intangible assets	1,210,000
	\$ 1,587,500
	=====

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

Of the \$1,210,000 of the acquired other intangible assets, \$570,000 was assigned to technology and websites with a useful life of 5 years, \$120,000 was assigned to customer relationships with an estimated useful life of 9 years, \$140,000 was assigned to the trade name with an estimated useful life of 6 years, \$110,000 was assigned to the IPR&D with an estimated useful life of 3 years, and \$270,000 was assigned to non-compete agreements with an estimated useful life of 5 years. In connection with the acquisition, the Company entered into a three-year employment agreement with the previous Chief Operating Officer of the acquired business as President of the Company's new Torbal Division and Director of Marketing for the Company. The agreement may be extended by mutual consent for an additional two years.

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The Company was unable to obtain audited financial statements of the business acquired in connection with the acquisition. The inability to include the related audited financial statements as required by the Securities Exchange Act of 1934 in the related Report on Form 8-K filing resulted in the inability of the Company to register under the Securities Act of 1933, as amended, offerings of the Company's securities during the one year period ending February 2015.

Pro forma results

The unaudited pro forma condensed consolidated financial information in the table below summarizes the consolidated results of operations of the Company including its new Torbal Division, on a pro forma basis, as though the companies had been consolidated as of the beginning of the fiscal year ended June 30, 2014. The unaudited pro forma condensed financial information presented below is for informational purposes only and is not intended to represent or be indicative of the consolidated results of the operations that would have been achieved if the acquisition had been completed as of the commencement of the fiscal year presented. In addition, the Company was unable to obtain audited historical information and, therefore the information presented is based on management's best judgment.

	For the Three Month Period Ended September 30, 2013
Net Revenues	\$1,692,100
Net Loss	(\$ 32,700)
Net loss per share - basic	(\$.02)

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Net loss per share
- diluted (\$.02)

4. Segment Information and Concentrations:

The Company views its operations as three segments: the manufacture and marketing of standard benchtop laboratory equipment including the balances and scales by its Torbal Scales Division for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors and on a direct basis ("Benchtop Laboratory Equipment"), the manufacture and marketing of custom-made catalyst research instruments for universities, government laboratories, and chemical and petrochemical companies sold on a direct basis ("Catalyst Research Instruments") and the marketing and production of bioprocessing systems for laboratory research in the biotechnology industry sold directly to customers and through distributors ("Bioprocessing Systems").

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Segment information is reported as follows:

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

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Three months ended September 30, 2013:					
Revenues	\$1,069,700	\$ 339,700	\$ 26,700	\$ -	\$1,436,100
Foreign Sales	620,800	73,500	2,000	-	696,300
Income(Loss) from					
Operations	117,800	(104,000)	(16,800)	-	(3,000)
Assets	2,470,200	1,587,200	890,600	1,101,100	6,049,100
Long-Lived Asset					
Expenditures	9,900	-	500	-	10,400
Depreciation and					

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Amortization	11,000	9,100	24,100	-	44,200
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Approximately 46% and 68% of net sales of benchtop laboratory equipment for the three month periods ended September 30, 2014 and 2013, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

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

For the three months ended September 30, 2014, and 2013, respectively, two customers accounted in the aggregate for approximately 13% and 15% of the net sales of the Benchtop Laboratory Equipment Operations and 9% and 11% of the Company's revenues. Sales of catalyst research instruments generally comprise a few very large orders averaging at least \$100,000 per order to a limited number of customers, who differ from order to order. Sales to five and three customers during the three months ended September 30, 2014 and 2013, respectively, accounted for approximately 99% and 94% of the Catalyst Research Instrument Operations' revenues and 33% and 22% of the Company's total revenues.

The Company's foreign sales are principally to customers in Europe and Asia.

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5. Fair Value of Financial Instruments:

The FASB defines the fair value of financial instruments as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements do not include transaction costs.

The accounting guidance also expands the disclosure requirements around fair value and establishes a fair value hierarchy of valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are described below:

Level 1 Inputs that are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuation that require inputs that are both significant to the fair value measurement and unobservable.

The following tables set forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis at September 30, 2014 and June 30, 2014 according to the

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valuation techniques the Company used to determine their fair values:

Fair Value Measurements Using Inputs Considered as

Assets:

	Fair Value at September 30, 2014	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 388,100	\$ 388,100	\$ -	\$ -
Available for sale securities	338,000	338,000	-	-
Total	\$ 726,100	\$ 726,100	\$ -	\$ -

Liabilities:

Contingent consideration	\$ 401,100	\$ -	\$ -	\$401,100
	=====	=====	=====	=====

Fair Value Measurements Using Inputs Considered as

Assets:

	Fair Value at June 30, 2014	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 493,700	\$ 493,700	\$ -	\$ -
Available for sale securities	415,400	415,400	-	-
Total	\$ 909,100	\$ 909,100	\$ -	\$ -

Liabilities:

Contingent consideration	\$ 500,000	\$ -	\$ -	\$500,000
	=====	=====	=====	=====

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Investments in marketable securities classified as available-for-sale by security type at September 30, 2014 and June 30, 2014 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At September 30, 2014:			
Available for sale:			
Equity securities	\$ 29,300	\$ 38,300	\$ 9,000
Mutual funds	303,300	299,700	(8,600)
	\$ 337,600	\$ 338,000	\$ 400

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At June 30, 2014:			
Available for sale:			

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Equity securities	\$ 29,300	\$ 38,500	\$ 9,200
Mutual funds	385,000	376,900	(8,100)
	<u>\$ 414,300</u>	<u>\$ 415,400</u>	<u>\$ 1,100</u>
	=====	=====	=====

6. Inventories:

Inventories for financial statement purposes are based on perpetual inventory records at September 30, 2014 and based on a physical count as of June 30, 2014. Components of inventory are as follows:

	September 30, 2014	June 30, 2014
Raw materials	<u>\$1,580,500</u>	<u>\$1,617,100</u>
Work in process	345,100	366,200
Finished goods	357,300	325,900
	<u>\$2,282,900</u>	<u>\$2,309,200</u>
	=====	=====

7. Earnings (Loss) per common share:

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

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

	For the Three Month Periods Ended September 30,	
	<u>2014</u>	<u>2013</u>
Net income (loss)	(\$ 161,300)	\$ 2,100
	=====	=====
Weighted average common shares outstanding	1,469,112	1,337,663
Dilutive securities	-	7,408
	<u>1,469,112</u>	<u>1,345,071</u>
Weighted average dilutive common shares outstanding	1,469,112	1,345,071
	<u>1,469,112</u>	<u>1,345,071</u>
Basic earnings (loss) per common share	(\$.11)	\$.00
	=====	=====
Diluted earnings (loss) per		

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\$2,879,200	\$1,083,300	\$1,795,900
=====	=====	=====

Total amortization expense was \$88,100 and \$28,100 for the three months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, estimated future amortization expense related to intangible assets is \$260,200 for the remainder of the fiscal year ending June 30, 2015, \$352,400 for fiscal 2016, \$337,100 for fiscal 2017, \$323,300 for fiscal 2018, \$244,800 for fiscal 2019, and \$191,100 thereafter.

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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 decreased by \$105,600 to \$388,100 as of September 30, 2014 from \$493,700 as of June 30, 2014.

Net cash used in operating activities was \$259,700 for the three months ended September 30, 2014 as compared to \$159,100 for the comparable three month period in 2013, primarily due to the loss for the current period. Cash provided by investing activities was \$54,200 for the three month period ended September 30, 2014 compared to cash used of \$16,100 for the three month period ended September 30, 2013 due primarily to the redemptions of investments. Cash provided by financing activities was \$99,900 for the three months ended September 30, 2014 compared to \$19,400 used for the prior year period due primarily to the cash borrowed under the line of credit.

The Company's working capital decreased by \$187,300 to \$2,955,100 at September 30, 2014 from \$3,142,400 at June 30, 2014, mainly due to the loss during the period.

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The Company has a line of credit with Bank of America Merrill Lynch which provides for maximum borrowings of up to \$700,000, bearing interest at 3.00 percentage points above the LIBOR Index, 3.16% as of October 31, 2014 and is secured by a pledge of collateral consisting of the inventory, accounts, chattel paper, equipment and fixtures of the Company. Outstanding amounts are due and payable by November 30, 2015 with a requirement that the Company is to reduce the outstanding principal balance to zero during the 30 day period ending on the expiration date of the promissory note. As of September 30, 2014, \$200,000 was due under this line.

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

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Results of Operations

Financial Overview

The Company recorded a loss of \$222,900 before income tax benefit for the three months ended September 30, 2014 compared to income of \$3,000 before income tax expense for the comparable period last year, primarily the result of the loss incurred by the Benchtop Laboratory Equipment Operations due to the lower sales of Genie(TM) brand products to overseas customers, and lower than expected Torbal(R) brand product sales, and amortization costs related to the new Torbal division.

The Three Months Ended September 30, 2014 Compared With the Three Months Ended September 30, 2013

Revenues for the three months ended September 30, 2014 increased by \$226,000 (15.7%) to \$1,662,100 from \$1,436,100 for the three months ended September 30, 2013, primarily as a result of a \$211,400 increase in catalyst research instrument sales. Sales of benchtop laboratory products increased by \$16,700 compared to the same period last year as a result of sales of Torbal brand products of \$211,500 while Genie brand product sales for overseas customers were lower. 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 Bioprocessing Systems Operations' revenues (\$24,600) consist primarily of earned royalties. The backlog of orders for catalyst research instruments was \$439,500 as of September 30, 2014, substantially all of which is expected to be delivered by fiscal year end, as compared to the backlog as of September 30, 2013 of \$513,400.

The gross profit percentage for the three months ended September 30, 2014 decreased to 30.1% compared to 41.4% for the three months ended September 30, 2013, primarily due to product mix of the Benchtop Laboratory Equipment Operations which include in the current year Torbal brand products at lower gross margins and comparatively lower gross margins for Genie brand products.

General and administrative expenses for the three months ended

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September 30, 2014 increased by \$23,500 (7.8%) to \$326,500 from \$303,000 for the three months ended September 30, 2013, primarily due to the addition of such expenses incurred by the Torbal division of the Benchtop Laboratory Equipment Operations.

Selling expenses for the three months ended September 30, 2014 increased \$98,300 (49.9%) to \$295,300 from \$197,000 for the three months ended September 30, 2013, primarily the result of increased sales commissions for the Catalyst Research Instruments Operations and higher expenses incurred by the Torbal division of the Benchtop Laboratory Equipment Operations.

Research and development expenses for the three months ended September 30, 2014 increased by \$9,900 (10.2%) to \$107,100 from \$97,200 for the three months ended September 30, 2013, primarily the result of increased product development activities by the Bioprocessing Systems Operations.

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For the three months ended September 30, 2014, the income tax benefit was \$61,600 compared to income tax expense of \$900 for the three months ended September 30, 2013 due to the loss for the period.

As a result, the net loss for the three months ended September 30, 2014 was \$161,300 compared to a net income of \$2,100 for the three months ended September 30, 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Chief Executive and Chief Financial Officer of the Company has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms. The Company also concluded that information required to be disclosed in such reports is accumulated and communicated to the Company's management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There was no change in the Company's internal controls over financial reporting that occurred during the most recently completed fiscal quarter that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

Part II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Number:	Description
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

None

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

SIGNATURE

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

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Scientific Industries, Inc.
Registrant

/s/ Helena R. Santos

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

Date: November 13, 2014