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SCIENTIFIC INDUSTRIES INC
Form 10-Q
May 14, 2015

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, 2015

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

Commission File Number: _____ 0-6658

SCIENTIFIC INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware 04-2217279

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

80 Orville Drive, 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 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 May 1, 2015 was 1,479,112 shares.

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PART I-FINANCIAL INFORMATION Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

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ASSETS		March 31, 2015	June 30, 2014
Current assets:	(Unaudited)		
Cash and cash equivalents		\$ 354,300	\$ 493,700
Investment securities		286,000	415,400
Trade accounts receivable, net		829,600	756,700
Inventories		2,621,300	2,309,200
Prepaid expenses and other current assets		111,200	123,100
Deferred taxes		100,700	86,000
	Total current assets	<u>4,303,100</u>	<u>4,184,100</u>
Property and equipment, net		244,500	252,100
Intangible assets, net		1,537,200	1,795,900
Goodwill		705,300	705,300
Other assets		52,400	28,200
Deferred taxes		169,100	146,200
	Total assets	<u>\$7,011,600</u> =====	<u>\$7,111,800</u> =====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		\$ 325,100	\$ 373,700
Customer advances		324,900	89,500
Bank line of credit		100,000	-
Notes payable, current portion		-	26,700
Accrued expenses and taxes		429,300	442,800
Contingent consideration, current portion		136,100	109,000
	Total current liabilities	<u>1,315,400</u>	<u>1,041,700</u>
Contingent consideration, less current portion		265,000	391,000
	Total liabilities	<u>1,580,400</u>	<u>1,432,700</u>
Shareholders' equity:			
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,498,914 and 1,488,914 issued and outstanding at March 31, 2015 and June 30, 2014		74,900	74,400
Additional paid-in capital		2,454,200	2,420,700
Accumulated other comprehensive gain (loss)		(500)	1,100
Retained earnings		2,955,000	3,235,300
		<u>5,483,600</u>	<u>5,731,500</u>
Less common stock held in treasury, at cost, 19,802 shares		52,400	52,400
	Total shareholders' equity	<u>5,431,200</u>	<u>5,679,100</u>
	Total liabilities and shareholders' equity	<u>\$7,011,600</u> =====	<u>\$7,111,800</u> =====

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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 March 31,		For the Nine Month Periods Ended March 31,	
	2015	2014	2015	2014
Revenues	\$1,729,200	\$1,786,300	\$5,082,400	\$4,970,200
Cost of sales	961,900	1,088,900	3,125,800	2,860,500
Gross profit	767,300	697,400	1,956,600	2,109,700
Operating expenses:				
General & administrative	433,900	461,800	1,286,500	1,108,100
Selling	202,200	198,000	726,900	602,800
Research & development	94,500	113,800	317,700	301,900
Total operating expenses	730,600	773,600	2,331,100	2,012,800
Income (loss) from operations	36,700	(76,200)	(374,500)	96,900
Other income (expense):				
Investment income	1,100	1,000	10,700	19,500
Other	(4,600)	(3,700)	(5,700)	(7,700)
Interest expense	(1,600)	(900)	(4,300)	(2,400)
Total other income, (expense) net	(5,100)	(3,600)	700	9,400
Income (loss) before income taxes (benefit)	31,600	(79,800)	(373,800)	106,300
Income tax expense (benefit):				
Current	34,800	(1,400)	(56,200)	40,200
Deferred	(22,200)	(18,700)	(37,300)	(11,400)
Total income (loss) tax expense (benefit)	12,600	(20,100)	(93,500)	28,800
Net income (loss)	\$ 19,000	(\$ 59,700)	(\$ 280,300)	\$ 77,500
Basic earnings (loss) per common share	\$.01	(\$.04)	(\$.19)	\$.06

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Diluted earnings (loss) per common share	\$.01	(\$.04)	(\$.19)	\$.06
Cash dividends declared 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) (UNAUDITED)

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2015	2014	2015	2014
Net income (loss)	\$ 19,000	(\$ 59,700)	(\$ 280,300)	\$ 77,500
Other comprehensive income (loss):				
Unrealized holding gain (loss) arising during period, net of tax	2,900	10,100	(1,600)	7,500
Comprehensive income (loss)	\$ 21,900	(\$ 49,600)	(\$ 281,900)	\$ 85,000

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, 2015		March 31, 2014	
Operating activities:				
Net income (loss)	(\$ 280,300)	\$ 77,500		

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Adjustments to reconcile net income		
to net cash used in operating activities:		
Loss on sale of investments	4,400	17,300
Depreciation and amortization	327,200	154,000
Deferred income tax (benefit)	(37,300)	(11,400)
Stock-based compensation	10,200	14,900
Income tax benefit of stock options exercised	4,900	-
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(72,900)	(319,400)
Inventories	(312,100)	(399,700)
Prepaid expenses and other current assets	11,900	(66,900)
Accounts payable	(48,600)	77,900
Customer advances	235,400	256,000
Accrued expenses and taxes	(13,500)	19,900
Other assets	(24,200)	-
Total adjustments	85,400	(257,400)
Net cash used in operating activities	(194,900)	(179,900)
Investing activities:		
Cash paid for asset acquisition	-	(700,000)
Redemption of investment securities, available-for-sale	127,000	450,900
Purchase of investment securities, available-for-sale	(3,800)	(25,000)
Capital expenditures	(56,500)	(47,100)
Purchase of other intangible assets	(4,400)	(2,900)
Net cash provided by (used in) investing activities	62,300	(324,100)
Financing activities:		
Line of credit proceeds	250,000	150,000
Line of credit repayments	(150,000)	(70,000)
Payments of contingent consideration	(98,900)	(1,100)
Proceeds from exercise of stock options	18,800	6,700
Cash dividend declared and paid	-	(107,400)
Principal payments on note payable	(26,700)	(58,500)
Net cash used in financing activities	(6,800)	(80,300)
Net decrease in cash and cash equivalents	(139,400)	(584,300)
Cash and cash equivalents, beginning of year	493,700	927,300
Cash and cash equivalents, end of period	\$ 354,300	\$ 343,000
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	\$ 3,500	\$ 152,100
Interest	4,300	2,400

See Note 2 for non-cash investing and financing activities in connection with an asset acquisition.

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 and nine months ended March 31, 2015, 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 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 April 2015 the FASB proposed a one-year deferral of the effective date of the new revenue recognition standard. If finalized as proposed, the new guidance will be effective for the Company's fourth quarter of fiscal 2018 and early adoption is 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,

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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

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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, 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 and agreed to make additional cash payment based on a percentage of net sales of the business acquired equal to 8% for the period ending June 30, 2014 annualized, amounting to \$98,900, 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 precision scales. The products are sold primarily on a direct basis, including through 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,

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\$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 In Process Research and Development ("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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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 March 31, 2014	For the Nine Month Period Ended March 31, 2014
Net Revenues	\$1,969,300	\$5,703,200
Net Loss	(\$ 82,300)	(\$ 13,800)
Net income (loss) per share		
- basic	(\$.06)	(\$.01)
Net Income (loss) per share		
- diluted	(\$.06)	(\$.01)

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

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and marketing of custom-made catalyst research instruments for universities, government laboratories, and chemical and petrochemical companies sold on a direct basis ("Catalyst Research Instruments") and the marketing and production of bioprocessing systems for laboratory research in the biotechnology industry sold directly to customers and through distributors ("Bioprocessing Systems").

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Segment information is reported as follows (foreign sales are principally to customers in Europe and Asia):

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Three months ended 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
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

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Three months ended March 31, 2014:					
Revenues	\$1,177,400	\$ 603,900	\$ 5,000	\$ -	\$1,786,300
Foreign Sales	604,900	198,800	-	-	803,700
Income (Loss) from					
Operations	61,400	(10,600)	(58,000)	(69,000)	(76,200)
Assets	4,017,100	1,847,900	873,300	674,800	7,413,100
Long-Lived Asset					
Expenditures	1,454,700	11,300	1,000	-	1,467,000
Depreciation and					
Amortization	32,700	8,500	24,300	-	65,500

Approximately 53% and 57% of net sales of benchtop laboratory equipment for the three month periods ended March 31, 2015 and 2014, respectively,

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were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 21% and 13% of total benchtop laboratory equipment sales were derived from the Torbal Scales Division for the three months ended March 31, 2015 and 2014, respectively.

Two benchtop laboratory equipment customers accounted for approximately 18% and 22% of the segment's net sales for the three month periods ended March 31, 2015 and 2014 (17% and 15% of total net sales, 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, 2015 and two different customers in the three months ended March 31, 2014, accounted respectively for 64% and 94% of the segment's net sales for each of the periods (5% and 32% of total net sales for the respective periods).

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	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
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

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Nine months ended March 31, 2014:					
Revenues	\$3,401,200	\$1,406,900	\$ 162,100	\$ -	\$4,970,200
Foreign Sales	2,049,100	367,100	2,000	-	2,418,200
Income (Loss) from Operations	299,100	(112,500)	(10,200)	(79,500)	96,900
Assets	4,017,100	1,847,900	873,300	674,800	7,413,100
Long-Lived Asset Expenditures	1,474,700	11,300	7,500	-	1,493,500
Depreciation and Amortization	55,300	26,100	72,600	-	154,000

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Approximately 50% and 63% of net sales of benchtop laboratory equipment for the nine month periods ended March 31, 2015 and 2014, respectively, were derived from sales of the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 34% and 4% of total benchtop laboratory equipment sales for the nine months ended March 31, 2015 and 2014, respectively, were derived from sales since acquisition in February 2014 of the new Torbal Scales Division.

Two benchtop laboratory equipment customers, accounted for approximately 28% and 21% of the segment's net sales (13% and 14% of total net sales) for the nine month periods ended March 31, 2015 and 2014, respectively.

Sales of catalyst research instruments to five customers in the nine months ended March 31, 2015 and to three other customers in the nine months ended March 31, 2014 accounted for approximately 69% and 59% of that segment's net sales (14% and 17% of total net sales) for the respective nine month periods.

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

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

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

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

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

The following tables set forth by level within the fair value

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hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2015 and June 30, 2014 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, 2015	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 354,300	\$ 354,300	\$ -	\$ -
Available for sale securities	286,000	286,000	-	-
Total	\$ 640,300	\$ 640,300	\$ -	\$ -
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 March 31, 2015 and June 30, 2014 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At March 31, 2015:			
Available for sale:			
Equity securities	\$ 29,300	\$ 35,700	\$ 6,400
Mutual funds	257,200	250,300	(6,900)

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\$ 286,500 \$ 286,000 (\$ 500)
 =====

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

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

	March 31, 2015	June 30, 2014
Raw Materials	\$1,476,700	\$1,617,100
Work in process	815,200	366,200
Finished Goods	329,400	325,900
	<u>\$2,621,300</u>	<u>\$2,309,200</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.

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

	For the Three Month Periods Ended March 31,		For the Nine Month Periods Ended March 31,	
	2015	2014	2015	2014
Net income (loss)	\$ 19,000	(\$ 59,700)	(\$ 280,300)	\$ 77,500
	=====	=====	=====	=====
Weighted average common shares outstanding	1,479,112	1,390,433	1,477,375	1,382,519

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Effect of dilutive securities	-	-	-	9,741
Weighted average dilutive common shares outstanding	1,479,112	1,390,433	1,477,375	1,392,260
Basic earnings (loss) per common share	\$.01	(\$.04)	(\$.19)	\$.06
Diluted earnings (loss) per common share	\$.01	(\$.04)	(\$.19)	\$.06

Approximately 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, 2015, because the effect would be anti-dilutive.

Approximately 61,000 and 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 nine month periods ended March 31, 2014, 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 and \$589,900 as of March 31, 2015 and June 30, 2014, 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, 2015:				
Technology, trademarks	5/10 yrs.	\$1,226,800	\$ 590,400	\$ 636,400
Trade names	6 yrs.	140,000	25,300	114,700
Websites	5 yrs.	210,000	45,500	164,500
Customer relationships	9/10 yrs.	357,000	231,600	125,400
Sublicense agreements	10 yrs.	294,000	99,200	194,800
Non-compete agreements	5 yrs.	384,000	168,600	215,400
IPR&D	3 yrs.	110,000	39,700	70,300
Other intangible assets	5 yrs.	161,900	146,200	15,700
		<u>\$2,883,700</u>	<u>\$1,346,500</u>	<u>\$1,537,200</u>

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	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2014:				
Technology, trademarks	5/10 yrs.	\$1,226,800	\$ 489,100	\$ 737,700
Trade names	6 yrs.	140,000	7,800	132,200
Websites	5 yrs.	210,000	14,000	196,000
Customer relationships	9/10 yrs.	357,000	215,800	141,200
Sublicense agreements	10 yrs.	294,000	77,200	216,800
Non-compete agreements	5 yrs.	384,000	126,300	257,700
IPR&D	3 yrs.	110,000	12,200	97,800
Other intangible assets	5 yrs.	157,400	140,900	16,500
		<u>\$2,879,200</u>	<u>\$1,083,300</u>	<u>\$1,795,900</u>
		=====	=====	=====

Total amortization expense was \$86,900 and \$47,500 for the three months ended March 31, 2015 and 2014, respectively and \$263,200 and \$103,400 for the nine months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, estimated future amortization expense related to intangible assets is \$87,500 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 \$192,100 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 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.

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Liquidity and Capital Resources

Cash and cash equivalents decreased \$139,400 to \$354,300 as of March 31, 2015 from \$493,700 as of June 30, 2014.

Operating activities used cash of \$194,900 for the nine month period ended March 31, 2015 as compared to the \$179,900 used in the nine month period ended March 31, 2014. In the current year period cash used in operating activities was negatively impacted by the loss incurred, and higher amounts of work-in-progress inventories for the Catalyst Research Instruments Operations, partially offset by advances received from customers for orders of catalyst research instruments and a higher amount for depreciation and amortization related to the asset acquisition. Net cash provided by investing activities was \$62,300 for the nine months ended March 31, 2015 compared to net cash used of \$324,100 for the comparable period last year primarily due to the cash paid for the asset acquisition last year. Net cash used in financing activities was \$6,800 for the nine months ended March 31, 2015 compared to \$80,300 for the comparable prior year period primarily because of the absence of a dividend this year, partially off set by the contingent consideration paid with respect to the acquisition in February 2014 of the Torbal Division assets.

The Company's working capital decreased by \$154,700 to \$2,987,700 as of March 31, 2015 from \$3,142,400 at June 30, 2014 mainly due to the loss during the period.

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, 3.17% as of March 31, 2015 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 March 31, 2015, \$100,000 was due under this line.

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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 recorded, respectively, income before income taxes of \$31,600 and a loss before income tax benefit of \$373,800 for the three and nine month periods ended March 31, 2015 compared to a loss before income tax benefit of \$79,800 and income before income taxes of \$96,900 for the three and nine month periods ended March 31, 2014. The results included significant non-cash amounts for depreciation and amortization expenses, of \$107,100 and 327,200 for the three and nine month periods ended March 31, 2015, respectively, compared to \$65,500 and \$154,000 for the three and nine month periods ended March 31,

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2014, respectively, the majority of which pertained to the Torbal Division assets.

The income for the current three month period increased compared to the prior year's loss for the same period due to higher sales of benchtop laboratory equipment, and the absence of acquisition costs that were incurred in the same period last year. The loss for the current nine month period resulted primarily from the significant depreciation and amortization described above and facility moving costs, along with increased losses from the Catalyst Research Instruments Operations due to lower sales, and a higher loss by the Bioprocessing Systems Operations compared to last year which included an order for a profitable prototype.

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

Net revenues for the three months ended March 31, 2015 decreased by \$57,100 (3.2%) to \$1,729,200 from \$1,786,300 for the three months ended March 31, 2014 as a result of a \$459,300 decrease in catalyst research instrument sales, partially offset by increases of \$380,600 and \$21,600 in laboratory equipment 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 \$1,154,000 as of March 31, 2015, most of which is expected to be delivered by fiscal year end, as compared to the backlog of \$505,200 as of March 31, 2014. Although typically there is no significant backlog of orders for the Benchtop Laboratory Equipment Operations, due to production delays and increased number of orders during the period, the Company had a backlog of such products of approximately \$300,000 as of March 31, 2015, all of which has been fulfilled as of the date of this report.

The gross profit for the three months ended March 31, 2015 was 44.3% compared to 39.0% for the three months ended March 31, 2014, due primarily to sales mix and higher sales of benchtop laboratory equipment.

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General and administrative expenses for the three months ended March 31, 2015 decreased \$27,900 (6.0%) to \$433,900 compared to \$461,800 for the three months ended March 31, 2014, primarily due to the costs incurred last year related to the asset acquisition.

Selling expenses for the three months ended March 31, 2015 increased \$4,200 (2.1%) to \$202,200 from \$198,000 for the three months ended March 31, 2014, primarily the result of selling expenses incurred by the Torbal Division of the Benchtop Laboratory Equipment Operations.

Research and development expenses for the three months ended March 31, 2015 decreased to \$94,500 from \$113,800 for the three months ended March 31, 2014, primarily the result of decreased new product development activity by the Benchtop Laboratory Equipment Operations due to the launch of a new product during the 2015 period.

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Total other expense amounted to \$5,100 for the three months ended March 31, 2015 compared to expense of \$3,600 for the prior year period.

The Company recorded income tax expense of \$12,600 for the three months ended March 31, 2015 compared to an income tax benefit of \$20,100 for the three months ended March 31, 2014.

As a result of the foregoing, net income was \$19,000 for the three months ended March 31, 2015, compared to a net loss of \$59,700 for the three months ended March 31, 2014.

Nine Months Ended March 31, 2015 Compared With the Nine Months Ended March 31, 2014

Net revenues increased by \$112,200 (2.3%) to \$5,082,400 for the nine months ended March 31, 2015 compared to \$4,970,200 for the nine months ended March 31, 2014, due to increases of \$490,200 in benchtop laboratory equipment sales; partially offset by decreases of \$291,600 and \$86,400 in catalyst research instrument sales and bioprocessing product revenues. Last year the revenues generated by the Bioprocessing Systems Operations benefitted from a one-time order for prototype bioprocessing products of approximately \$100,000. 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 Benchtop Laboratory Equipment Operations include since, February 2014, sales of Torbal brand balances and scales (refer to Note 4 for segment information).

The gross profit percentage for the nine months ended March 31, 2015 decreased to 38.5% compared to 42.4% for the nine months ended March 31, 2014, due principally to product mix of the Benchtop Laboratory Equipment Operations, which include in the current year Torbal brand products at lower gross margins.

General and administrative expenses increased by \$178,400 (16.1%) to \$1,286,500 for the nine months ended March 31, 2015 from \$1,108,100 for the comparable period of the prior year, due to the expenses of the new Torbal Division of the Benchtop Laboratory Equipment Operations, and costs associated with the move of the Company's principal facility in November 2014.

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Selling expenses for the nine months ended March 31, 2015 increased by \$124,100 (20.5%) to \$726,900 from \$602,800 for the nine months ended March 31, 2014, primarily the result of expenses of the new Torbal Division of the Benchtop Laboratory Equipment Operations, and higher selling expenses for the Catalyst Research Instruments Operations.

Research and development expenses for the nine months ended March 31, 2015 increased by \$15,800 (5.2%) to \$317,700 from \$301,900 for the

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nine months ended March 31, 2014, primarily due to new product development expenses by the Company's Bioprocessing Systems Operations.

Total other income decreased \$8,700 to \$700 for the nine month period ended March 31, 2015 compared to \$9,400, for the nine month period ended March 31, 2014 due to lower investment income and higher interest expense.

Income tax benefit for the nine months ended March 31, 2015 was \$93,500 compared to income tax expense of \$28,800 for the nine months ended March 31, 2014 due to the losses generated in the current period.

As a result of the foregoing, the net loss for the nine months ended March 31, 2015 was \$280,300 compared to net income of \$77,500 for the nine months ended March 31, 2014.

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 B 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.

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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:

Filed on January 16, 2015 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 14, 2015

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