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SCIENTIFIC INDUSTRIES INC
Form 10-Q
November 14, 2016

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

FORM 10-Q

(Mark One)

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

For quarterly period ended September 30, 2016

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

For the transition period from _____ to _____

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware 04-2217279

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

80 Orville Drive, Suite 102, Bohemia, New York 11716

(Address of principal executive offices) (Zip Code)

(631)567-4700

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a 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 (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

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The number of shares outstanding of the issuer's common stock par value, \$0.05 per share, as of October 31, 2016 was 1,489,112 shares.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2016	June 30, 2016
Current assets:	(Unaudited)	
Cash and cash equivalents	\$ 966,000	\$1,245,000
Investment securities	292,100	290,100
Trade accounts receivable, net	1,151,700	1,231,900
Inventories	2,601,100	2,412,100
Prepaid expenses and other current assets	211,300	47,200
Deferred taxes	125,500	140,600
Total current assets	5,347,700	5,366,900
Property and equipment at cost, net	233,200	251,100
Intangible assets, net	828,100	897,600
Goodwill	705,300	705,300
Other assets	52,500	52,500
Deferred taxes	274,600	275,900
Total assets	\$7,441,400	\$7,549,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 320,400	\$ 342,400
Customer advances	403,800	-
Notes payable, current portion	6,500	6,400
Accrued expenses and taxes, current portion	526,000	849,700
Contingent consideration payable, current portion	161,800	136,500
Total current liabilities	1,418,500	1,335,000
Notes payable, less current portion	10,800	12,500
Contingent consideration payable, less current portion	67,100	209,800
Accrued expenses, less current portion	60,000	60,000
Total liabilities	1,556,400	1,617,300
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; 1,508,914 outstanding at September 30, 2016 and June 30, 2016	75,400	75,400

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Additional paid-in capital	2,499,200	2,498,500
Accumulated other comprehensive income	2,000	900
Retained earnings	3,360,800	3,409,600
	<u>5,937,400</u>	<u>5,984,400</u>
Less common stock held in treasury, at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	<u>5,885,000</u>	<u>5,932,000</u>
Total liabilities and shareholders' equity	<u>\$7,441,400</u>	<u>\$7,549,300</u>
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended September 30,	
	2016	2015
Revenues	<u>\$1,559,100</u>	<u>\$1,444,500</u>
Cost of revenues	889,500	849,400
Gross profit	<u>669,600</u>	<u>595,100</u>
Operating expenses:		
General and administrative	412,400	408,200
Selling	216,800	167,000
Research and development	115,400	85,400
Total operating expenses	<u>744,600</u>	<u>660,600</u>
Loss from operations	<u>(75,000)</u>	<u>(65,500)</u>
Other income (expense):		
Investment income	200	400
Other income (expense)	5,400	(4,700)
Interest expense	(200)	(8,100)
Total other income (expense), net	<u>5,400</u>	<u>(12,400)</u>
Loss before income tax expense (benefit)	<u>(69,600)</u>	<u>(77,900)</u>
Income tax expense (benefit):		
Current	(36,300)	-
Deferred	15,500	(17,800)
Total income tax benefit	<u>(20,800)</u>	<u>(17,800)</u>
Net loss	<u>(\$ 48,800)</u>	<u>(\$ 60,100)</u>
	=====	=====

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Basic and diluted loss per common share	(\$.03)	(\$.04)
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended September 30,	
	2016	2015
Net loss	(\$ 48,800)	(\$ 60,100)
Other comprehensive income (loss):		
Unrealized holding gain (loss) arising during period, net of tax	1,100	(3,800)
Comprehensive loss	(\$ 47,700)	(\$ 63,900)
	=====	=====

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended	
	Sept. 30, 2016	Sept. 30, 2015
Operating activities:		
Net loss	(\$ 48,800)	(\$ 60,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on asset disposal	-	2,700
Depreciation and amortization	95,700	105,200
Deferred income taxes	15,500	(17,800)
Stock-based compensation	700	600
Changes in operating assets and liabilities:		
Accounts receivable	80,200	344,300
Inventories	(189,000)	(130,100)
Prepaid expenses and other current assets	(164,100)	(76,700)
Accounts payable	(22,000)	(26,500)
Customer advances	403,800	17,100

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Accrued expenses and taxes	(323,700)	(203,100)
Total adjustments	(102,900)	15,700
Net cash used in operating activities	(151,700)	(44,400)
Investing activities:		
Capital expenditures	-	(6,500)
Purchases of intangible assets	(8,400)	-
Net cash used in investing activities	(8,400)	(6,500)
Financing activities:		
Line of credit proceeds	-	200,000
Payment of contingent consideration	(117,400)	(100,900)
Principal payments on note payable	(1,500)	-
Net cash provided by (used in) financing activities	(118,900)	99,100

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, 2016	Sept. 30, 2015
Net increase (decrease) in cash and cash equivalents	(279,000)	48,200
Cash and cash equivalents, beginning of year`	1,245,000	482,000
Cash and cash equivalents, end of period	\$ 966,000	\$ 530,200
Supplemental disclosures:		
Cash paid during the period for:		
Income Taxes	\$186,000	\$ 18,500
Interest	200	4,400

See notes to unaudited condensed consolidated financial statements

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

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and that they are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended June 30, 2016. The results for the three months ended September 30, 2016, are not necessarily an indication of the results for the full fiscal year ending June 30, 2017.

1. Summary of significant accounting policies:

Principles of consolidation:

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

2. New Accounting Pronouncements:

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

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

earliest comparative period in the financial statements, and provides for certain practical expedients. The Company is currently evaluating the timing, impact and method of applying this guidance on its consolidated financial statements.

In November 2015, the FASB issued new guidance simplifying the balance sheet classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the new guidance. The guidance is effective for public companies for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted as of the beginning of an interim or annual reporting period. The new guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company does not expect the adoption to have a material impact on its financial condition, results of operations or cash flows.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory: Simplifying the Measurement of Inventory", that requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The new standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. The Company does not expect the adoption to have a material impact on its financial condition, results of operations or cash flows.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers amending revenue recognition requirements for multiple-deliverable revenue arrangements. This update provides guidance on how revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. This determination is made in five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date to fiscal years beginning after December 15, 2018 and early adoption of the standard is permitted, but not before the original effective date of December 15, 2017. The Company is evaluating the effect this guidance will have on the consolidated financial statements and related disclosures.

3. 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

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Equipment"), the manufacture and marketing of custom-made catalyst research

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

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, 2016:					
Revenues	\$1,456,800	\$ 77,500	\$ 24,800	\$ -	\$1,559,100
Foreign Sales	561,200	4,800	-	-	566,000
Income (Loss) from					
Operations	101,400	(141,700)	(34,700)	-	(75,000)
Assets	4,034,400	2,286,700	428,100	692,200	7,441,400
Long-Lived Asset					
Expenditures	8,400	-	-	-	8,400
Depreciation and					
Amortization	76,700	6,600	12,400	-	95,700

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bio- processing Systems	Corporate and Other	Conso- lidated
Three months ended September 30, 2015:					
Revenues	\$1,263,000	\$ 153,000	\$ 28,500	\$ -	\$1,444,500
Foreign Sales	599,000	7,800	-	-	606,800
Income (Loss) from					
Operations	54,700	(82,000)	(30,100)	(8,100)	(65,500)
Assets	4,056,400	1,613,200	730,700	564,400	6,964,700
Long-Lived Asset					
Expenditures	6,500	-	-	-	6,500
Depreciation and					
Amortization	73,800	6,900	24,500	-	105,200

Approximately 49% and 47% of net sales of benchtop laboratory equipment for the three month periods ended September 30, 2016 and 2015, respectively, were derived from the Company's main product, the Vortex-Genie 2(R) mixer, excluding accessories.

Approximately 26% and 21% of total benchtop laboratory equipment sales were derived from the Torbal Scales Division for the three months ended September 30, 2016 and 2015, respectively.

For the three months ended September 30, 2016, and 2015, respectively, two customers accounted in the aggregate for approximately 16% and 13% of net sales of the Benchtop Laboratory Equipment Operations (15% and 11% of the Company's total 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 one customer (who differed from period-to-period) during the three months ended September 30, 2016 and 2015, accounted respectively, for approximately 57% and 76% of the Catalyst Research Instrument Operations' revenues and 3% and 8% of the Company's total revenues, respectively.

4. Fair Value of Financial Instruments:

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

The accounting guidance also expands the disclosure requirements around fair value and establishes a fair value hierarchy for 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, 2016 and June 30, 2016 according to the valuation techniques the Company used to determine their fair values:

Fair Value Measurements Using Inputs Considered as

	Fair Value at September 30, 2016	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 966,000	\$ 966,000	\$ -	\$ -
Available for sale securities	292,100	292,100	-	-
Total	\$1,258,100	\$1,258,100	\$ -	\$ -

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Liabilities:	=====	=====	=====	=====
Contingent consideration	\$ 228,900	\$ -	\$ -	\$228,900
	=====	=====	=====	=====

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Fair Value Measurements Using Inputs
Considered as

	Fair Value at June 30, 2016	Level 1	Level 2	Level 3
	-----	-----	-----	-----
Assets:				
Cash and cash equivalents	\$1,245,000	\$1,245,000	\$ -	\$ -
Available for sale securities	290,100	290,100	-	-
Total	\$1,535,100	\$1,535,100	\$ -	\$ -
	=====	=====	=====	=====
Liabilities:				
Contingent consideration	\$ 346,300	\$ -	\$ -	\$346,300
	=====	=====	=====	=====

The following table sets forth an analysis of changes during the three months ended September 30, 2016, Level 3 financial liabilities of the Company:

Beginning balance, June 30, 2016	\$346,300
Payments	(117,400)
Ending Balance, September 30, 2016	\$228,900
	=====

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

	Cost	Fair Value	Unrealized Holding Gain (Loss)
	-----	-----	-----
At September 30, 2016:			
Available for sale:			
Equity securities	\$ 29,300	\$ 41,500	\$ 12,200
Mutual funds	260,800	250,600	(10,200)
	\$ 290,100	\$ 292,100	\$ 2,000
	=====	=====	=====
	Cost	Fair Value	Unrealized Holding Gain (Loss)
	-----	-----	-----
At June 30, 2016:			

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Available for sale:			
Equity securities	\$ 29,300	\$ 40,700	\$ 11,400
Mutual funds	259,900	249,400	(10,500)
	<u>\$ 289,200</u>	<u>\$ 290,100</u>	<u>\$ 900</u>
	=====	=====	=====

5. Inventories:

Inventories for financial statement purposes are based on perpetual inventory records at September 30, 2016 and based on a physical count as of June 30, 2016. Components of inventory are as follows:

	September 30, 2016	June 30, 2016
	<u> </u>	<u> </u>
Raw materials	\$1,502,800	\$1,529,800
Work in process	774,000	425,300
Finished goods	324,300	457,000
	<u>\$2,601,100</u>	<u>\$2,412,100</u>
	=====	=====

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6. Loss per common share:

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

Loss per common share was computed as follows:

	For the Three Month Periods Ended September 30,	
	<u>2016</u>	<u>2015</u>
Net loss	(\$ 48,800)	(\$ 60,100)
	=====	=====
Weighted average common shares outstanding	1,489,112	1,489,112
	=====	=====
Weighted average dilutive common shares outstanding	1,489,112	1,489,112
	=====	=====
Basic loss per common share	(\$.03)	(\$.04)
	=====	=====
Diluted loss per common share	(\$.03)	(\$.04)
	=====	=====

Approximately 43,500 and 38,500 shares of the Company's Common Stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted loss per common share, for the three months ended September 30, 2016 and 2015, because the effect would be anti-dilutive due

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to the loss for each period.

7. Goodwill and Other Intangible Assets:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisition of Altamira and SBI's acquisition of assets. Goodwill amounted to \$705,300 as of September 30, 2016 and June 30, 2016, all of which is expected to be deductible for tax purposes.

The components of other intangible assets are as follows:

	Useful Lives	Cost	Accumulated Amortization	Net
At September 30, 2016:				
Technology, trademarks	5/10 yrs.	\$ 722,800	\$ 489,900	\$ 232,900
Trade names	6 yrs.	140,000	60,200	79,800
Websites	5 yrs.	210,000	108,500	101,500
Customer relationships	9/10 yrs.	357,000	269,200	87,800
Sublicense agreements	10 yrs.	294,000	143,300	150,700
Non-compete agreements	5 yrs.	384,000	253,200	130,800
Intellectual Property, Research and Development (IPR&D)	3 yrs.	110,000	94,700	15,300
Other intangible assets	5 yrs.	186,300	157,000	29,300
		<u>\$2,404,100</u>	<u>\$1,576,000</u>	<u>\$ 828,100</u>
		=====	=====	=====

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

Total amortization expense was \$77,900 and \$86,300 for the three months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, estimated future amortization expense related to intangible assets is \$219,400 for the remainder of the fiscal year ending June 30, 2017, \$288,500 for fiscal 2018, \$210,600 for fiscal 2019, \$45,100 for fiscal 2020, \$43,500 for fiscal 2021, and \$21,000 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 for 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 \$279,000 to \$966,000 as of September 30, 2016 from \$1,245,000 as of June 30, 2016.

Net cash used in operating activities was \$151,700 for the three months ended September 30, 2016 as compared to \$44,400 for the comparable three month period in 2015, reflecting lower accounts receivable balances, increased prepayments to vendors, decreased accrued expense items, partially offset by increased advances from customers for catalyst research instrument orders. Cash used in investing activities was \$8,400 for the three month period ended September 30, 2016 compared to \$6,500 for the three month period ended September 30, 2015. Cash used in financing activities was \$118,900 for the three months ended September 30, 2016 compared to cash provided of \$99,100 for the three months ended September 30, 2015 because of the proceeds received under the line of credit in the prior year.

The Company's working capital decreased by \$102,700 to \$3,929,200 at September 30, 2016 from \$4,031,900 at June 30, 2016.

The Company has two lines of credit through June 2017 with First National Bank of Pennsylvania - an Export-Related Revolving Line of Credit which is guaranteed by the Export-Import Bank of the United States which provides for export-related borrowings of up to \$200,000, bearing interest at prime plus 1% and an annual fee of 1.75% and a second one-year Demand Line of Credit which provides for borrowings of up to \$300,000 for regular working capital needs, bearing interest at prime, currently 3.50%. Advances on both lines are secured by a pledge of the Company's assets including inventory, accounts, chattel paper, equipment and general intangibles of the Company. As of September 30, 2016 no borrowings were outstanding under either 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, lines of credit, and operations.

Results of Operations

Financial Overview

The Company incurred a loss of \$69,600 before income tax benefit for the three months ended September 30, 2016 compared to a loss of \$77,900 before income tax benefit for the comparable period last year, the improvement is primarily due to higher sales and margins generated by the Benchtop Laboratory Equipment Operations. The result included non-cash amounts for depreciation and amortization of \$95,700 and \$105,200 for the three months ended September 30, 2016 and 2015, respectively.

The Three Months Ended September 30, 2016 Compared With the Three Months Ended September 30, 2015

Revenues for the three months ended September 30, 2016 increased by \$114,600 (7.9%) to \$1,559,100 from \$1,444,500 for the three months ended September 30, 2015, primarily as a result of a \$193,800 increase in benchtop laboratory equipment sales. Sales of catalyst research instruments, and bioprocessing revenues decreased by \$75,500 and \$3,700 respectively. 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, and the Bioprocessing Systems Operations' revenues consist primarily of earned royalties. The backlog of orders for catalyst research instruments was \$1,167,000 as of September 30, 2016, substantially all of which is expected to be delivered by fiscal year end, as compared to the backlog as of September 30, 2015 of \$2,944,000.

The gross profit percentage for the three months ended September 30, 2016 increased to 42.9% compared to 41.2% for the three months ended September 30, 2015, primarily due to higher sales for the Benchtop Laboratory Equipment Operations.

General and administrative expenses for the three months ended September 30, 2016 amounted to \$412,400 compared to \$408,200 for the three months ended September 30, 2015.

Selling expenses for the three months ended September 30, 2016 increased \$49,800 (29.8%) to \$216,800 from \$167,000 for the three months ended September 30, 2015, primarily the result of increased advertising expenses for benchtop laboratory equipment and trade show expense for the Catalyst Research Instruments Operations.

Research and development expenses for the three months ended September 30, 2016 increased by \$30,000 (35.1%) to \$115,400 from \$85,400 for the three months ended September 30, 2015, due primarily to increased new product development activity by the Benchtop Laboratory Equipment Operations.

Total other income was \$5,400 for the three month period ended September 30, 2016 compared to \$12,400 expense for the three month period ended September 30, 2015 due to miscellaneous income items in the current year and reduced interest expense.

For the three months ended September 30, 2016, the income tax benefit was \$20,800 compared to income tax benefit of \$17,800 for the three months ended

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September 30, 2015.

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As a result, the net loss for the three months ended September 30, 2016 was \$48,800 compared to a net loss of \$60,100 for the three months ended September 30, 2015.

Item 4. Controls and Procedures

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

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

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Part II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Number: Description

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

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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: November 14, 2016

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