

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

FORM 10-Q

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

For the quarterly period ended **December 31, 2018**

☐ **TRANSITION REPORT PURSUANT TO 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 in Its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-2217279
(I.R.S. Employer Identification No.)

80 Orville Drive, Suite 102, Bohemia, New York
(Address of principal executive offices)

11716
(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 mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ 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 ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☒

Emerging Growth ☐

Indicate by check mark whether the registrant is a shell company (*as defined in Rule 12b-2 of the Act*)

Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, par value \$.05 per share ("Common Stock") as of February 4, 2019 is 1,494,112 shares.

SCIENTIFIC INDUSTRIES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

ASSETS

	December 31, 2018	June 30, 2018
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,358,100	\$ 1,053,100
Investment securities	307,800	314,700
Trade accounts receivable, less allowance for doubtful accounts of \$11,600 at December 31, 2018 and June 30, 2018	1,216,500	1,444,100
Contract assets, current	307,200	278,200
Inventories	2,723,900	2,267,900
Prepaid expenses and other current assets	101,400	33,500
Total current assets	6,014,900	5,391,500
Property and equipment, net	177,900	199,500
Intangible assets, net	222,600	338,700
Goodwill	705,300	705,300
Contract assets, less current portion	-	245,400
Other assets	52,500	52,500
Deferred taxes	385,500	392,600
Total assets	<u>\$ 7,558,700</u>	<u>\$ 7,325,500</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 570,700	\$ 428,000
Accrued expenses and taxes, current portion	556,100	657,700
Contract liabilities	114,300	63,800
Contingent consideration, current portion	118,000	118,000
Notes payable	2,500	5,800
Total current liabilities	1,361,600	1,273,300
Accrued expenses, less current portion	-	60,000
Contingent consideration payable, less current portion	290,000	290,000
Total liabilities	<u>1,651,600</u>	<u>1,623,300</u>
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares; issued 1,513,914, outstanding 1,494,112 shares at December 31, 2018 and June 30, 2018	75,700	75,700
Additional paid-in capital	2,564,100	2,545,900
Accumulated other comprehensive gain (loss)	(19,800)	1,200
Retained earnings	3,339,500	3,131,800
	5,959,500	5,754,600
Less common stock held in treasury at cost, 19,802 shares	52,400	52,400
Total shareholders' equity	<u>5,907,100</u>	<u>5,702,200</u>
Total liabilities and shareholders' equity	<u>\$ 7,558,700</u>	<u>\$ 7,325,500</u>

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

	For the Three Month Period Ended December 31, 2018	For the Three Month Period Ended December 31, 2017	For the Six Month Period Ended December 31, 2018	For the Six Month Period Ended December 31, 2017
Revenues	\$ 2,163,200	\$ 1,892,400	\$ 4,201,800	\$ 3,173,300
Cost of revenues	<u>1,187,500</u>	<u>1,126,700</u>	<u>2,280,400</u>	<u>1,955,900</u>
Gross profit	<u>975,700</u>	<u>765,700</u>	<u>1,921,400</u>	<u>1,217,400</u>
Operating expenses:				
General and administrative	462,100	407,900	878,600	836,300
Selling	248,200	214,600	484,300	415,600
Research and development	<u>109,400</u>	<u>132,900</u>	<u>226,700</u>	<u>262,000</u>
Total operating expenses	<u>819,700</u>	<u>755,400</u>	<u>1,589,600</u>	<u>1,513,900</u>
Income (loss) from operations	<u>156,000</u>	<u>10,300</u>	<u>331,800</u>	<u>(296,500)</u>
Other income (expense):				
Interest income	2,500	5,200	2,800	5,600
Other income, net	(9,300)	1,400	(7,400)	1,400
Interest expense	<u>(400)</u>	<u>(500)</u>	<u>(800)</u>	<u>(600)</u>
Total other income (expense), net	<u>(7,200)</u>	<u>6,100</u>	<u>(5,400)</u>	<u>6,400</u>
Income (loss) before income tax expense	<u>148,800</u>	<u>16,400</u>	<u>326,400</u>	<u>(290,100)</u>
Income tax expense:				
Current	24,400	71,800	53,900	8,000
Deferred	<u>6,000</u>	<u>25,600</u>	<u>12,000</u>	<u>15,500</u>
Total income tax expense	<u>30,400</u>	<u>97,400</u>	<u>65,900</u>	<u>23,500</u>
Net income (loss)	<u>\$ 118,400</u>	<u>\$ (81,000)</u>	<u>\$ 260,500</u>	<u>\$ (313,600)</u>
Basic earnings (loss) per common share	<u>\$.08</u>	<u>\$ (.05)</u>	<u>\$.17</u>	<u>\$ (.21)</u>
Diluted earnings (loss) per common share	<u>\$.08</u>	<u>\$ (.05)</u>	<u>\$.17</u>	<u>\$ (.21)</u>
Cash dividends declared per common share	<u>\$.05</u>	<u>\$.00</u>	<u>\$.05</u>	<u>\$.00</u>

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Month Period Ended December 31, 2018	For the Three Month Period Ended December 31, 2017	For the Six Month Period Ended December 31, 2018	For the Six Month Period Ended December 31, 2017
Net income (loss)	\$ 118,400	\$ (81,000)	\$ 260,500	\$ (313,600)
Other comprehensive income (loss):				
Unrealized holding gain (loss)				
arising during period,				
net of tax	(2,900)	1,600	(21,000)	4,200
Comprehensive Income (loss)	<u>\$ 115,500</u>	<u>\$ (79,400)</u>	<u>\$ 239,500</u>	<u>\$ (309,400)</u>

See notes to unaudited condensed consolidated financial statements.

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

	For the Six Month Period Ended December 31, 2018	For the Six Month Period Ended December 31, 2017
Operating activities:		
Net income (loss)	\$ 260,500	\$ (313,600)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:		
Loss on sale of investments	5,000	-
Depreciation and amortization	151,900	154,100
Unrealized holding gain of investments	3,300	-
Deferred income taxes	7,100	16,500
Income tax benefit of stock options exercised	-	8,000
Stock-based compensation	18,200	12,400
Changes in operating assets and liabilities:		
Trade accounts receivable	227,600	(184,000)
Contract assets	216,400	133,100
Inventories	(456,000)	(431,400)
Prepaid and other current assets	(67,900)	(66,300)
Accounts payable	142,700	240,200
Contract liabilities	50,500	321,800
Accrued expenses and taxes	(162,000)	(24,500)
Total adjustments	136,800	179,900
Net cash provided by (used in) operating activities	397,300	(133,700)
Investing activities:		
Redemption of investment securities, available-for-sale	2,700	-
Purchase of investment securities, available-for-sale	(75,200)	(15,000)
Sale of investment securities, available-for-sale	72,400	
Capital expenditures	(7,900)	(68,100)
Purchase of other intangible assets	(6,300)	(1,500)
Net cash used in investing activities	(14,300)	(84,600)
Financing activities:		
Line of credit proceeds	-	40,000
Payments for contingent consideration	-	(142,700)
Cash dividend declared and paid	(74,700)	-
Principal payments on notes payable	(3,300)	(3,400)
Net cash used in financing activities	(78,000)	(106,100)
Net increase (decrease) in cash and cash equivalents	305,000	(324,400)
Cash and cash equivalents, beginning of year	1,053,100	1,025,100
Cash and cash equivalents, end of period	\$ 1,358,100	\$ 700,700
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	\$ 39,700	\$ 16,000
Interest	800	600

See notes to unaudited condensed consolidated financial statements.

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

General: The accompanying unaudited interim condensed consolidated financial statements are prepared pursuant to the Securities and Exchange Commission's rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and that they are of a normal and recurring nature. These interim statements should be read in conjunction with the Company's financial statements and notes thereto, included in its Annual Report on Form 10-K, for the fiscal year ended June 30, 2018. The results for the three months and six months ended December 31, 2018, are not necessarily an indication of the results for the full fiscal year ending June 30, 2019.

1. Summary of Significant Accounting Policies

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

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is currently evaluating the impact of the new standard.

In July 2017, the FASB issued ASU 2017-11, "*Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*". Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is evaluating the effect that ASU 2017-11 will have on its financial statements and related disclosures.

In April 2016, the FASB issued ASU No. 2016-10, "*Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing (Topic 606)*". In March 2016, the FASB issued ASU No. 2016-08, "*Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (Topic 606)*". These amendments provide additional clarification and implementation guidance on the previously issued ASU 2014-09, "Revenue from Contracts with Customers". The amendments in ASU 2016-10 provide clarifying guidance on materiality of performance obligations; evaluating distinct performance obligations; treatment of shipping and handling costs; and determining whether an entity's promise to grant a license provides a customer with either a right to use an entity's intellectual property or a right to access an entity's intellectual property. The amendments in ASU 2016-08 clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The Company adopted the provisions of these pronouncements on July 1, 2018, using the modified retrospective approach. Revenue from the Company's sales continue to generally be recognized when products are shipped (i.e. point in time). As such, the adoption of ASU 2016-10 had no material impact to the Company's financial position or results of operations; however, the Company has now presented the disclosures required by this new standard, refer to Note 2.

In August 2016, the FASB issued ASU 2016-15, “*Classification of Certain Cash Receipts and Cash Payments*”. This update provides guidance on how to record eight specific cash flow issues. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted and a retrospective transition method to each period should be presented. The adoption of this ASU had no impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “*Statement of Cash Flows (Topic 230)*”, requiring that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017 with early adoption permitted. The provisions of this guidance are to be applied using a retrospective approach which requires application of the guidance for all periods presented. The adoption of this ASU had no impact on the Company’s consolidated financial statements.

IN REVENUE REVENUE REVENUE
IN REVENUE REVENUE REVENUE

Trade accounts receivable, current of \$307,200 and \$278,200, and trade accounts receivable, long term of \$245,400 for the year ended June 30, 2018 were reclassified to contract assets, current; and contract assets, less current portion, respectively, on the balance sheet as of December 31, and June 30, 2018. Customer advances were reclassified to contract liabilities as of December 31, and June 30, 2018.

2. Revenue

The Company’s revenues are comprised of product sales (Benchtop Laboratory Equipment Operations) as well as products and related services such as installation and training as is customary for its customers of the Catalyst Research Instruments Operations. In addition, the Company’s Bioprocessing Systems Operations’ revenues are comprised of royalty revenues. All revenue is recognized when the Company satisfies its performance obligation(s) under the contract (either implicit or explicit) by transferring the promised product or service to its customer either when (or as) its customer obtains control of the product or service. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer. A contract’s transaction price is allocated to each distinct performance obligation. The majority of the Company’s contracts have a single performance obligation, as the promise to transfer products or services is not separately identifiable from other promises in the contract and, therefore, not distinct. For contracts with multiple performance obligations, the Company allocates the contract’s transaction price to each performance obligation using the Company’s best estimate of standalone selling price for each distinct product or service in the contract, which is generally based on an observable price.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or providing services. As such, revenue is recorded net of returns, allowances, customer discounts, and incentives. Revenue from the Bioprocessing Systems Operations are recognized over time based on Management’s judgment and estimates.

3. 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 and laboratory and pharmacy balances and scales (“Benchtop Laboratory Equipment Operations”), 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 Operations”) and the design and marketing of bioprocessing systems and products and related royalty income (“Bioprocessing Systems”).

Segment information is reported as follows:

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bioprocessing Systems	Corporate And Other	Consolidated
Three Months Ended December 31, 2018:					
Revenues	\$1,803,100	\$ 227,200	\$ 132,900	\$ -	\$2,163,200
Foreign Sales	743,600	222,900	-	-	966,500
Income (Loss) From Operations	148,600	(48,300)	55,700	-	156,000
Assets	4,762,000	1,376,100	727,300	693,300	7,558,700
Long-Lived Asset Expenditures	10,800	1,200	-	-	12,000
Depreciation and Amortization	66,400	200	9,400	-	76,000

	<u>Benchtop Laboratory Equipment</u>	<u>Catalyst Research Instruments</u>	<u>Bioprocessing Systems</u>	<u>Corporate And Other</u>	<u>Consolidated</u>
Three Months Ended December 31, 2017:					
Revenues	\$1,686,200	\$ 153,500	\$ 52,700	\$ -	\$1,892,400
Foreign Sales	815,300	2,600	-	-	817,900
Income (Loss) From Operations	122,000	(103,400)	(8,300)	-	10,300
Assets	4,085,800	1,613,200	467,900	803,300	6,970,200
Long-Lived Asset Expenditures	33,000	1,900	2,500	-	37,400
Depreciation and Amortization	67,000	700	9,300	-	77,000

Approximately 51% and 53% of total benchtop laboratory equipment sales (42% and 48% of total revenues) for the three month periods ended December 31, 2018 and 2017, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 25% and 21% of total benchtop laboratory equipment sales (21% and 19% of total revenues) were derived from the Torbal Scales Division for the three months ended December 31, 2018 and 2017, respectively.

For the three months ended December 31, 2018 and 2017, respectively, three customers accounted for approximately 21% and 22% of net sales of the Benchtop Laboratory Equipment Operations (18% and 20% of the Company's total revenues). Sales of catalyst research instruments generally comprise a few very large orders averaging approximately \$50,000 per order to a limited number of customers, who differ from order to order. Sales to two and one customer during the three months ended December 31, 2018 and 2017, accounted for approximately 96% and 74% of the Catalyst Research Instrument Operations' revenues and 10% and 7% of the Company's total revenues, respectively.

	<u>Benchtop Laboratory Equipment</u>	<u>Catalyst Research Instruments</u>	<u>Bioprocessing Systems</u>	<u>Corporate And Other</u>	<u>Consolidated</u>
Six Months Ended December 31, 2018:					
Revenues	\$3,495,100	\$ 444,600	\$ 262,100	\$ -	\$4,201,800
Foreign Sales	1,379,300	365,200	-	-	1,744,500
Income (Loss) From Operations	324,200	(111,300)	118,900	-	331,800
Assets	4,762,000	1,376,100	727,300	693,300	7,558,700
Long-Lived Asset Expenditures	13,000	1,200	-	-	14,200
Depreciation and Amortization	132,700	400	18,800	-	151,900

	Benchtop Laboratory Equipment	Catalyst Research Instruments	Bioprocessing Systems	Corporate And Other	Consolidated
Six Months Ended December 31, 2017:					
Revenues	\$2,885,600	\$ 182,300	\$ 105,400	\$ -	\$3,173,300
Foreign Sales	1,317,600	9,000	-	-	1,326,600
Income (Loss) From Operations	28,100	(287,500)	(37,100)	-	(296,500)
Assets	4,085,800	1,613,200	467,900	803,300	6,970,200
Long-Lived Asset Expenditures	65,200	1,900	2,500	-	69,600
Depreciation and Amortization	131,900	3,500	18,700	-	154,100

Approximately 50% total benchtop laboratory equipment sales (41% and 46% of total revenues) for both six month periods ended December 31, 2018 and 2017, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 25% and 23% of total benchtop laboratory equipment sales (21% of total revenues) were derived from the Torbal Scales Division for both the six months ended December 31, 2018 and 2017, respectively. For the six months ended December 31, 2018 and 2017, respectively, three customers accounted for approximately 22% of net sales of the Benchtop Laboratory Equipment Operations for both six month periods ended December 31, 2018 and 2017 (18% and 20% of the Company's total revenues), respectively.

Sales of catalyst research instruments generally comprise a few very large orders averaging approximately \$50,000 per order to a limited number of customers, who differ from order to order. Sales to five and one customer during the six months ended December 31, 2018 and 2017, accounted for approximately 90% and 64% of the Catalyst Research Instrument Operations' revenues and 10% and 4% 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.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company calculated the fair value of its Level 1 and 2 instruments based on the exchange traded price of similar or identical instruments where available or based on other observable instruments. These calculations take into consideration the credit risk of both the Company and its counterparties. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The fair value of the contingent consideration obligations are based on a probability weighted approach derived from the estimates of earn-out criteria and the probability assessment with respect to the likelihood of achieving those criteria. The measurement is based on significant inputs that are not observable in the market, therefore, the Company classifies this liability as Level 3 in the following tables.

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 December 31, 2018 and June 30, 2018 according to the valuation techniques the Company used to determine their fair values:

	Fair Value at December 31, 2018	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 1,358,100	\$ 1,358,100	\$ -	\$ -
Available for sale securities	307,800	307,800	-	-
Total	\$ 1,665,900	\$ 1,665,900	\$ -	\$ -
Liabilities:				
Contingent consideration	\$ 408,000	\$ -	\$ -	\$ 408,000

	Fair Value at June 30, 2018	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 1,053,100	\$ 1,053,100	\$ -	\$ -
Available for sale securities	314,700	314,700	-	-
Total	\$ 1,367,800	\$ 1,367,800	\$ -	\$ -
Liabilities:				
Contingent consideration	\$ 408,000	\$ -	\$ -	\$ 408,000

The following table sets forth an analysis of changes during the six months ended December 31, 2018 and 2017 in Level 3 financial liabilities of the Company:

	December 31, 2018	December 31, 2017
Beginning balance	\$ 408,000	\$ 297,000
Payments	-	(142,700)
Ending balance	<u>\$ 408,000</u>	<u>\$ 154,300</u>

Investments in marketable securities classified as available for sale by security type at December 31, 2018 and June 30, 2018 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At December 31, 2018:			
Available for sale:			
Equity securities	\$ 48,700	\$ 67,100	\$ 18,400
Mutual funds	260,500	240,700	(19,800)
	<u>\$ 309,200</u>	<u>\$ 307,800</u>	<u>\$ (1,400)</u>
At June 30, 2018:			
Available for sale:			
Equity securities	\$ 45,700	\$ 67,800	\$ 22,100
Mutual funds	267,800	246,900	(20,900)
	<u>\$ 313,500</u>	<u>\$ 314,700</u>	<u>\$ 1,200</u>

5. Inventories

Inventories are valued at the lower of cost (determined on a first-in, first-out basis) or net realizable value, and have been reduced by an allowance for excess and obsolete inventories. The estimate is based on managements review of inventories on hand compared to estimated future usage and sales. Cost of work-in-process and finished goods inventories include material, labor, and manufacturing overhead.

	December 31, 2018	June 30, 2018
Raw materials	\$ 1,554,000	\$ 1,488,000
Work-in-process	555,300	352,700
Finished goods	614,600	427,200
	<u>\$ 2,723,900</u>	<u>\$ 2,267,900</u>

6. 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 at December 31, 2018 and June 30, 2018, 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 December 31, 2018:				
Technology, trademarks	5/10 yrs.	\$ 662,800	\$ 649,500	\$ 13,300
Trade names	6 yrs.	140,000	112,800	27,200
Websites	5 yrs.	210,000	203,000	7,000
Customer relationships	9/10 yrs.	357,000	301,400	55,600
Sublicense agreements	10 yrs.	294,000	209,500	84,500
Non-compete agreements	5 yrs.	384,000	375,000	9,000
IPR&D	3 yrs.	110,000	110,000	-
Other intangible assets	5 yrs.	204,300	178,300	26,000
		<u>\$ 2,362,100</u>	<u>\$ 2,139,500</u>	<u>\$ 222,600</u>

	Useful Lives	Cost	Accumulated Amortization	Net
At June 30, 2018:				
Technology, trademarks	5/10 yrs.	\$ 662,800	\$ 613,400	\$ 49,400
Trade names	6 yrs.	140,000	101,100	38,900
Websites	5 yrs.	210,000	182,000	28,000
Customer relationships	9/10 yrs.	357,000	294,800	62,200
Sublicense agreements	10 yrs.	294,000	194,800	99,200
Non-compete agreements	5 yrs.	384,000	348,000	36,000
IPR&D	3 yrs.	110,000	110,000	-
Other intangible assets	5 yrs.	198,100	173,100	25,000
		<u>\$ 2,355,900</u>	<u>\$ 2,017,200</u>	<u>\$ 338,700</u>

Total amortization expense was \$61,300 and \$61,100 for the three months ended December 31, 2018 and 2017, respectively and \$122,300 and \$122,200 for the six months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, estimated future amortization expense related to intangible assets is \$64,700 for the remainder of the fiscal year ending June 30, 2019, \$66,400 for fiscal 2020, \$49,100 for fiscal 2021, \$26,100 for fiscal 2022, \$9,800 for fiscal 2023, and \$6,500 thereafter.

7. Earnings (Loss) Per Common Share

Earnings (loss) per common share data was computed as follows:

	For the Three Month Period Ended December 31, 2018	For the Three Month Period Ended December 31, 2017	For the Six Month Period Ended December 31, 2018	For the Six Month Period Ended December 31, 2017
Net income (loss)	\$118,400	\$(81,000)	\$260,500	\$(313,600)
Weighted average common shares outstanding	1,494,112	1,494,112	1,494,112	1,494,112
Effect of dilutive securities	18,839	-	11,368	-
Weighted average dilutive common shares outstanding	1,512,951	-	1,505,480	-
Basic earnings (loss) per common share	\$.08	\$(.05)	\$.17	\$(.21)
Diluted earnings (loss) per common share	\$.08	\$(.05)	\$.17	\$(.21)

Approximately 82,000 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 the three and six month periods ended December 31, 2017, because the effect would be anti-dilutive.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking statements. *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, success of marketing strategy, success of expansion efforts, impact of competition, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control, which are discussed elsewhere in this report. Consequently, no forward-looking statement can be guaranteed. The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and the related notes included elsewhere in this report.*

Overview.

The Company reflected income before income tax expense of \$148,800 for the three months ended December 31, 2018 compared to \$16,400 for the three months ended December 31, 2017, primarily due to an increase in earned royalties by the Bioprocessing Systems Operations and reduced losses by the Catalyst Research Instruments Operations. The Company reflected income before income tax of \$326,400 for the six months ended December 31, 2018 compared to a loss before income tax of \$290,100 for the six months ended December 31, 2017 due to increases in revenues and profits across all business segments as described further under "Results of Operations". The results reflected total non-cash amounts for depreciation and amortization of \$76,000 and \$151,900 for the three and six month periods ended December 31, 2018 compared to \$77,000 and \$154,100 for the corresponding three and six month periods in 2017.

Results of Operations.

The Three Months Ended December 31, 2018 Compared with The Three Months Ended December 31, 2017

Net revenues for the three months ended December 31, 2018 increased \$270,800 (14.3%) to \$2,163,200 from \$1,892,400 for the three months ended December 31, 2017, reflecting increased sales of benchtop laboratory equipment of \$116,900 resulting primarily from sales of Torbal brand products, an increase of \$73,700 in net sales of catalyst research instruments due to sales of custom products, and an increase in earned bioprocessing royalties of \$80,200 due to higher royalties earned overseas. The benchtop laboratory equipment sales reflected \$458,700 of Torbal brand product sales for the three months ended December 31, 2018, compared to \$359,900 in the three months ended December 31, 2017.

As of December 31, 2018, the order backlog for catalyst research instruments was \$617,400, substantially all of which is expected to be shipped during fiscal year ending June 30, 2019, compared to \$752,500 as of December 31, 2017.

The overall gross profit percentage for the three months ended December 31, 2018 increased to 45.1% compared to 40.5% for the three months ended December 31, 2017 due to higher sales and lower labor and overhead costs by the Catalyst Research Instruments Operations.

General and administrative expenses for the three months ended December 31, 2018 increased by \$54,200 (13.3%) to \$462,100 compared to \$407,900 for the three months ended December 31, 2017, due to various small increases in expenses by the Benchtop Laboratory Equipment Operations and the Catalyst Research Instruments Operations..

Selling expenses for the three months ended December 31, 2018 increased \$33,600 (15.7%) to \$248,200 from \$214,600 for the three months ended December 31, 2017, due to higher sales and marketing related expenses for the Benchtop Laboratory Equipment Operations.

Research and development expenses decreased by \$23,500 (17.7%) to \$109,400 for the three months ended December 31, 2018 compared to \$132,900 for the three months ended December 31, 2017, primarily due to decreased new product development costs incurred by the Benchtop Laboratory Equipment Operations related to the Torbal Scales Division's new automated pill counter anticipated to be launched in autumn 2019.

Total other income (expense), net was (\$7,200) for the three months ended December 31, 2018 compared to \$6,100 for the three months ended December 31, 2017 due to realized holding losses on investment securities.

The Company reflected an income tax expense of \$30,400 for the three months ended December 31, 2018 compared to income tax expense of \$97,400 for the three months ended December 31, 2017, primarily as a result of the expected lower corporate tax rate under the Tax Cuts and jobs Act passed by the U.S. Congress and signed into law on December 22, 2017.

As a result of the foregoing, the Company recorded net income of \$118,400 for the three months ended December 31, 2018 compared to a net loss of (\$81,000) for the three months ended December 31, 2017.

The Six Months Ended December 31, 2018 Compared with The Six Months Ended December 31, 2017

Net revenues for the six months ended December 31, 2018 increased \$1,028,500 (32.4%) to \$4,201,800 from \$3,173,300 for the six months ended December 31, 2017, reflecting an increase of \$609,500 in net sales of benchtop laboratory equipment resulting from increased orders for Genie and Torbal brand products, an increase of \$262,300 in net sales of catalyst research instruments derived from custom products, and an increase of \$156,700 in bioprocessing royalties. The benchtop laboratory equipment sales reflected \$884,000 of Torbal brand product sales for the six months ended December 31, 2018, compared to \$664,200 in the six months ended December 31, 2017.

The overall gross profit percentage for the six months ended December 31, 2018 was 45.7% compared to 38.4% for the six months ended December 31, 2017 as a result of the higher sales and fixed overhead of the Benchtop Laboratory Equipment Operations and improved gross margins by the Catalyst Research Instruments Operations.

General and administrative expenses for the six months ended December 31, 2018 increased \$42,300 (5.1%) to \$878,600 from \$836,300 for the six months ended December 31, 2017 due to various increases in administrative expenses by the Benchtop Laboratory Equipment Operations and the Catalyst Research Instrument Operations.

Selling expenses for the six months ended December 31, 2018 increased \$68,700 (16.5%) to \$484,300 from \$415,600 for the six months ended December 31, 2017, due to increased marketing efforts and sales commissions related to the Benchtop Laboratory Equipment Operations.

Research and development expenses decreased by \$35,300 (13.5%) to \$226,700 for the six months ended December 31, 2018 compared to \$262,000 for the six months ended December 31, 2017, primarily due to decreased new product development activities by the Benchtop Laboratory Equipment Operations related to the Torbal Scales Division's new automated pill counter anticipated to be launched in the autumn 2019.

Total other income (expense), net was \$(5,400) for the three months ended December 31, 2018 compared to \$6,400 for the three months ended December 31, 2017 principally due to realized losses on investment securities.

The Company reflected income tax expense of \$65,900 for the six months ended December 31, 2018 compared to \$23,500 for the six months ended December 31, 2017, primarily due to higher income.

As a result of the foregoing, the Company recorded net income of \$260,500 for the six months ended December 31, 2018 compared to a net loss of (\$313,600) for the six months ended December 31, 2017.

Liquidity and Capital Resources. Cash and cash equivalents increased by \$305,000 to \$1,358,100 as of December 31, 2018 from \$1,053,100 as of June 30, 2018 primarily due to income during the period.

Net cash provided by operating activities was \$397,300 for the six months ended December 31, 2018 compared to \$133,700 used during the six months ended December 31, 2017. The current period reflected higher income and accounts receivable balances. Net cash used in investing activities was \$14,300 for the six months ended December 31, 2018 compared to \$84,600 used during the six months ended December 31, 2017 principally due to lower capital equipment purchases during the current year period by the Benchtop Laboratory Equipment Operations. The Company used \$78,000 in financing activities in the six months ended December 31, 2018 compared to \$106,100 in the six months ended December 31, 2017 mainly due to contingent consideration payments in the prior year.

The Company's working capital increased by \$535,100 to \$4,653,300 as of December 31, 2018 compared to \$4,118,200, as of June 30, 2018 mainly due to the income during the period.

The Company has a Demand Line of Credit through December 2019 with First National Bank of Pennsylvania which provides for borrowings of up to \$300,000 for regular working capital needs, bearing interest at prime, currently. Advances on the line, are secured by a pledge of the Company's assets including inventory, accounts, chattel paper, equipment and general intangibles of the Company. As of December 31, 2018 no borrowings were outstanding under such line.

Management believes that the Company will be able to meet its cash flow needs during the 12 months ending December 31, 2019 from its available financial resources including the lines of credit, its cash and investment securities, and operations.

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

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

Reports on Form 8-K:

Report dated January 25, 2019 reporting under items 1.01, 5.02, 5.07, and 9.01

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 12, 2019

SCIENTIFIC INDUSTRIES, INC.
(Registrant)

/s/ Helena R. Santos

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