

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2019**

☐

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 ☐

Accelerated filer ☐

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

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 May 3, 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

	<u>March 31, 2019</u>	<u>June 30, 2018</u>
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,354,200	\$ 1,053,100
Investment securities	325,100	314,700
Trade accounts receivable, less allowance for doubtful accounts of \$11,600 at March 31, 2019 and June 30, 2018	2,000,400	1,444,100
Contract assets, current	422,300	278,200
Inventories	2,671,300	2,267,900
Prepaid expenses and other current assets	65,800	33,500
Total current assets	<u>6,839,100</u>	<u>5,391,500</u>
Property and equipment, net	281,200	199,500
Intangible assets, net	189,800	338,700
Goodwill	705,300	705,300
Contract assets, less current portion	-	245,400
Other assets	52,500	52,500
Deferred taxes	<u>463,400</u>	<u>392,600</u>
Total assets	<u>\$ 8,531,300</u>	<u>\$ 7,325,500</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 451,400	\$ 428,000
Accrued expenses and taxes, current portion	806,500	657,700
Bank line of credit	50,000	-
Contract liabilities	227,800	63,800
Contingent consideration, current portion	311,000	118,000
Notes payable	700	5,800
Total current liabilities	<u>1,847,400</u>	<u>1,273,300</u>
Accrued expenses, less current portion	-	60,000
Contingent consideration payable, less current portion	<u>664,000</u>	<u>290,000</u>
Total liabilities	<u>2,511,400</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, at March 31, 2019 and June 30, 2018	75,700	75,700
Additional paid-in capital	2,575,800	2,545,900
Accumulated other comprehensive gain (loss)	(12,300)	1,200
Retained earnings	<u>3,433,100</u>	<u>3,131,800</u>
	<u>6,072,300</u>	<u>5,754,600</u>
Less common stock held in treasury at cost, 19,802 shares	<u>52,400</u>	<u>52,400</u>
Total shareholders' equity	<u>6,019,900</u>	<u>5,702,200</u>
Total liabilities and shareholders' equity	<u>\$ 8,531,300</u>	<u>\$ 7,325,500</u>

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Month Period Ended March 31, 2019	For the Three Month Period Ended March 31, 2018	For the Nine Month Period Ended March 31, 2019	For the Nine Month Period Ended March 31, 2018
Revenues	\$ 3,053,500	\$ 2,099,300	\$ 7,255,300	\$ 5,272,600
Cost of revenues	<u>1,972,400</u>	<u>1,331,500</u>	<u>4,252,700</u>	<u>3,287,300</u>
Gross profit	<u>1,081,100</u>	<u>767,800</u>	<u>3,002,600</u>	<u>1,985,300</u>
Operating expenses:				
General and administrative	492,400	470,200	1,371,000	1,306,600
Selling	282,100	263,800	766,400	679,500
Research and development	<u>120,900</u>	<u>117,700</u>	<u>347,600</u>	<u>379,700</u>
Total operating expenses	<u>895,400</u>	<u>851,700</u>	<u>2,485,000</u>	<u>2,365,800</u>
Income (loss) from operations	<u>185,700</u>	<u>(83,900)</u>	<u>517,600</u>	<u>(380,500)</u>
Other income (expense):				
Interest income	300	-	3,100	5,600
Other income, net	8,100	500	600	1,900
Interest expense	<u>(600)</u>	<u>(500)</u>	<u>(1,400)</u>	<u>(1,100)</u>
Total other income, net	<u>7,800</u>	<u>-</u>	<u>2,300</u>	<u>6,400</u>
Income (loss) before income tax expense (benefit)	<u>193,500</u>	<u>(83,900)</u>	<u>519,900</u>	<u>(374,100)</u>
Income tax expense (benefit):				
Current	179,700	9,700	233,600	17,800
Deferred	<u>(79,800)</u>	<u>(55,900)</u>	<u>(67,800)</u>	<u>(40,400)</u>
Total income tax expense (benefit)	<u>99,900</u>	<u>(46,200)</u>	<u>165,800</u>	<u>(22,600)</u>
Net income (loss)	<u>\$ 93,600</u>	<u>\$ (37,700)</u>	<u>\$ 354,100</u>	<u>\$ (351,500)</u>
Basic earnings (loss) per common share	<u>\$.06</u>	<u>\$ (.03)</u>	<u>\$.24</u>	<u>\$ (.24)</u>
Diluted earnings (loss) per common share	<u>\$.06</u>	<u>\$ (.03)</u>	<u>\$.23</u>	<u>\$ (.24)</u>
Cash dividends declared per common share	<u>\$ -</u>	<u>\$ -</u>	<u>\$.05</u>	<u>\$ -</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 March 31, 2019	For the Three Month Period Ended March 31, 2018	For the Nine Month Period Ended March 31, 2019	For the Nine Month Period Ended March 31, 2018
Net income (loss)	\$ 93,600	\$ (37,700)	\$ 354,100	\$ (351,500)
Other comprehensive income (loss):				
Unrealized holding gain (loss) arising during period net of tax	7,500	(5,100)	(13,500)	(900)
Comprehensive income (loss)	<u>\$ 101,100</u>	<u>\$ (42,800)</u>	<u>\$ 340,600</u>	<u>\$ (352,400)</u>

See notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Fiscal Year 2019	Common Stock		Additional	Accumulated	Retained	Treasury Stock		Total
	Shares	Amount	Paid-in	Other	Earnings	Shares	Amount	Shareholders'
			Capital	Comprehensive				Equity
				Gain				
				(Loss)				
Balance, July 1, 2018	1,513,914	\$ 75,700	\$ 2,545,900	\$ 1,200	\$ 3,131,800	19,802	\$ 52,400	\$ 5,702,200
Cumulative effect of the adoption of ASU 2016-01 – Financial Instruments	-	-	-	-	22,000	-	-	22,000
Net income	-	-	-	-	142,000	-	-	142,000
Cash dividend declared, \$.05	-	-	-	-	(74,700)	-	-	(74,700)
Unrealized holding loss on investment securities, net of tax	-	-	-	(18,100)	-	-	-	(18,100)
Stock-based compensation	-	-	8,700	-	-	-	-	8,700
Balance, September 30, 2018	1,513,914	75,700	2,554,600	(16,900)	3,221,100	19,802	52,400	5,782,100
Net income	-	-	-	-	118,400	-	-	118,400
Unrealized holding loss on investment securities, net of tax	-	-	-	(2,900)	-	-	-	(2,900)
Stock-based compensation	-	-	9,500	-	-	-	-	9,500
Balance, December 31, 2018	1,513,914	75,700	2,564,100	(19,800)	3,339,500	19,802	52,400	5,907,100
Net income	-	-	-	-	93,600	-	-	93,600
Unrealized holding gain on investment securities, net of tax	-	-	-	7,500	-	-	-	7,500
Stock-based compensation	-	-	11,700	-	-	-	-	11,700
Balance, March 31, 2019	<u>1,513,914</u>	<u>\$ 75,700</u>	<u>\$ 2,575,800</u>	<u>\$ (12,300)</u>	<u>\$ 3,433,100</u>	<u>19,802</u>	<u>\$ 52,400</u>	<u>\$ 6,019,900</u>

See notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

<u>Fiscal Year 2018</u>	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Retained</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Comprehensive</u>	<u>Earnings</u>	<u>Shares</u>	<u>Amount</u>	<u>Shareholders'</u>
			<u>Capital</u>	<u>Gain</u>				<u>Equity</u>
				<u>(Loss)</u>				
Balance, July 1, 2017	1,513,914	\$ 75,700	\$ 2,515,900	\$ (3,500)	\$ 3,292,300	19,802	\$ 52,400	\$ 5,828,000
Net loss	-	-	-	-	(232,600)	-	-	(232,600)
Unrealized holding gain on investment securities, net of tax	-	-	-	2,600	-	-	-	2,600
Stock-based compensation	-	-	6,300	-	-	-	-	6,300
Balance, September 30, 2017	1,513,914	75,700	2,522,200	(900)	3,059,700	19,802	52,400	5,604,300
Net loss	-	-	-	-	(81,000)	-	-	(81,000)
Unrealized holding gain on investment securities, net of tax	-	-	-	1,600	-	-	-	1,600
Stock-based compensation	-	-	6,200	-	-	-	-	6,200
Tax benefit of stock option exercised	-	-	8,000	-	-	-	-	8,000
Balance, December 31, 2017	1,513,914	75,700	2,536,400	700	2,978,700	19,802	52,400	5,539,100
Net loss	-	-	-	-	(37,900)	-	-	(37,900)
Unrealized holding loss on investment securities, net of tax	-	-	-	(5,100)	-	-	-	(5,100)
Stock-based compensation	-	-	6,100	-	-	-	-	6,100
Balance, March 31, 2018	<u>1,513,914</u>	<u>\$ 75,700</u>	<u>\$ 2,542,500</u>	<u>\$ (4,400)</u>	<u>\$ 2,940,800</u>	<u>19,802</u>	<u>\$ 52,400</u>	<u>\$ 5,502,200</u>

See notes to unaudited condensed consolidated financial statements.

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

	For the Nine Month Period Ended March 31, 2019	For the Nine Month Period Ended March 31, 2018
Operating activities:		
Net income (loss)	\$ 354,100	\$ (351,500)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on sale of investments	5,000	-
Depreciation and amortization	218,200	230,100
Deferred income tax expense	(70,800)	(39,400)
Unrealized holding gain on investments	(4,200)	-
Income tax benefit of stock options exercised	-	8,000
Stock-based compensation	29,900	18,600
Change in fair value of contingent consideration	567,000	445,700
Changes in operating assets and liabilities:		
Trade accounts receivable	(556,300)	(227,700)
Contract assets	101,300	-
Inventories	(403,400)	(740,400)
Prepaid and other current assets	(32,300)	(12,000)
Accounts payable	23,400	255,200
Contract liabilities	164,000	356,000
Accrued expenses and taxes	88,800	(92,800)
Total adjustments	130,600	201,300
Net cash provided by (used in) operating activities	484,700	(150,200)
Investing activities:		
Sale of investment securities, available-for-sale	72,400	-
Purchase of investment securities, available-for-sale	(75,200)	(14,500)
Capital expenditures	(129,600)	(70,500)
Purchase of intangible assets	(21,400)	(3,600)
Net cash used in investing activities	(153,800)	(88,600)
Financing activities:		
Line of credit proceeds	50,000	40,000
Payments for contingent consideration	-	(142,700)
Cash dividend declared and paid	(74,700)	-
Principal payments on notes payable	(5,100)	(5,000)
Net cash used in financing activities	(29,800)	(107,700)
Net increase (decrease) in cash and cash equivalents	301,100	(346,500)
Cash and cash equivalents, beginning of year	1,053,100	1,025,100
Cash and cash equivalents, end of period	\$ 1,354,200	\$ 678,600
Cash paid during the period for:		
Income taxes	\$ 59,200	\$ 16,000
Interest	1,400	1,100

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 nine months ended March 31, 2019 are not necessarily an indication of the results for the full fiscal year ending June 30, 2019.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Scientific Industries, Inc., Altamira Instruments, Inc. ("Altamira"), a Delaware corporation and wholly-owned subsidiary, 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.

Recent Accounting Pronouncements

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 expects that the adoption of this ASU will have no material impact to the Company's financial statement.

Adopted Accounting Pronouncements

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.

Reclassification

Trade accounts receivable, current of \$422,300 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 March 31, 2019 and June 30, 2018. Customer advances of \$63,800 were reclassified to contract liabilities as of March 31, 2019 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:

	<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 March 31, 2019:					
Revenues	\$ 1,732,400	\$ 508,600	\$ 812,500	\$ -	\$ 3,053,500
Foreign Sales	682,300	346,400	-	-	1,028,700
Income (Loss) From Operations	57,900	(35,200)	163,000	-	185,700
Assets	4,656,600	1,583,100	1,503,100	788,500	8,531,300
Long-Lived Asset Expenditures	132,900	1,000	2,900	-	136,800
Depreciation and Amortization	56,500	200	9,600	-	66,300

	<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 March 31, 2018:					
Revenues	\$ 1,550,700	\$ 110,700	\$ 437,900	\$ -	\$ 2,099,300
Foreign Sales	620,200	105,400	-	-	725,600
Income (Loss) From Operations	78,200	(74,400)	(87,700)	-	(83,900)
Assets	3,930,600	1,680,800	893,300	853,600	7,358,300
Long-Lived Asset Expenditures	4,500	-	-	-	4,500
Depreciation and Amortization	67,400	(800)	9,400	-	76,000

Approximately 41% and 53% of total benchtop laboratory equipment sales (23% and 39% of total revenues) for the three month periods ended March 31, 2019 and 2018, respectively, were derived from the Company’s main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 30% and 21% of total benchtop laboratory equipment sales (17% and 16% of total revenues) were derived from the Torbal Scales Division for the three months ended March 31, 2019 and 2018, respectively.

For the three months ended March 31, 2019 and 2018, respectively, three customers accounted for approximately 22% and 26% of net sales of the Benchtop Laboratory Equipment Operations (12% and 19% 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 two customers during the three months ended March 31, 2019 and 2018, respectively, accounted for approximately 86% and 89% of the Catalyst Research Instrument Operations’ revenues and 14% and 5% 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>
Nine Months Ended March 31, 2019:					
Revenues	\$ 5,227,500	\$ 953,200	\$ 1,074,600	\$ -	\$ 7,255,300
Foreign Sales	2,061,600	711,600	-	-	2,773,200
Income (Loss) From Operations	382,100	(146,400)	281,900	-	517,600
Assets	4,656,600	1,583,100	1,503,100	788,500	8,531,300
Long-Lived Asset Expenditures	145,900	2,200	2,900	-	151,000
Depreciation and Amortization	189,200	600	28,400	-	218,200

	<u>Benchtop Laboratory Equipment</u>	<u>Catalyst Research Instruments</u>	<u>Bioprocessing Systems</u>	<u>Corporate And Other</u>	<u>Consolidated</u>
Nine Months Ended March 31, 2018:					
Revenues	\$ 4,436,300	\$ 293,000	\$ 543,300	\$ -	\$ 5,272,600
Foreign Sales	1,937,800	114,400	-	-	2,052,200
Income (Loss) From Operations	106,300	(361,900)	(124,900)	-	(380,500)
Assets	3,930,600	1,680,800	893,300	853,600	7,358,300
Long-Lived Asset Expenditures	69,700	1,900	2,500	-	74,100
Depreciation and Amortization	199,300	2,700	28,100	-	230,100

Approximately 47% and 51% of total benchtop laboratory equipment sales (34% and 43% of total revenues) for both the nine month periods ended March 31, 2019 and 2018, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

Approximately 27% and 22% of total benchtop laboratory equipment sales (19% of total revenues for both periods) were derived from the Torbal Scales Division for both the nine months ended March 31, 2019 and 2018, respectively. For the nine months ended March 31, 2019 and 2018, respectively, three customers accounted for approximately 22% and 15% of net sales of the Benchtop Laboratory Equipment Operations (16% and 12% 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 eight and three customers during the nine months ended March 31, 2019 and 2018, accounted for approximately 88% and 79% of the Catalyst Research Instrument Operations' revenues and 12% 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 March 31, 2019 and June 30, 2018 according to the valuation techniques the Company used to determine their fair values:

	Fair Value at March 31, 2019	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 1,354,200	\$ 1,354,200	\$ -	\$ -
Available-for-sale securities	325,100	325,100	-	-
Total	\$ 1,679,300	\$ 1,679,300	\$ -	\$ -
Liabilities:				
Contingent consideration	\$ 975,000	\$ -	\$ -	\$ 975,000

	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 nine months ended March 31, 2019 and 2018 in Level 3 financial liabilities of the Company:

	2019	2018
Beginning balance	\$ 408,000	\$ 297,000
Increase in contingent consideration liability	567,000	445,700
Payments	-	(142,700)
Ending balance	<u>\$ 975,000</u>	<u>\$ 600,000</u>

Investments in marketable securities classified as available-for-sale by security type at March 31, 2019 and June 30, 2018 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At March 31, 2019:			
Available-for-sale:			
Equity securities	\$ 48,700	\$ 74,700	\$ 26,000
Mutual funds	288,700	250,400	(38,300)
	<u>\$ 337,400</u>	<u>\$ 325,100</u>	<u>\$ (12,300)</u>

	Cost	Fair Value	Unrealized Holding Gain (Loss)
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 management's 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.

	March 31, 2019	June 30, 2018
Raw materials	\$ 1,615,800	\$ 1,488,000
Work-in-process	412,400	352,700
Finished goods	643,100	427,200
	<u>\$ 2,671,300</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 March 31, 2019 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 March 31, 2019:				
Technology, trademarks	5/10 yrs.	\$ 662,800	\$ 661,600	\$ 1,200
Trade names	6 yrs.	140,000	118,600	21,400
Websites	5 yrs.	210,000	210,000	-
Customer relationships	9/10 yrs.	357,000	304,800	52,200
Sublicense agreements	10 yrs.	294,000	216,800	77,200
Non-compete agreements	5 yrs.	384,000	384,000	-
IPR&D	3 yrs.	110,000	110,000	-
Other intangible assets	5 yrs.	219,400	181,600	37,800
		<u>\$ 2,377,200</u>	<u>\$ 2,187,400</u>	<u>\$ 189,800</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 \$47,900 and \$61,200 for the three months ended March 31, 2019 and 2018, respectively and \$170,200 and \$183,400 for the nine months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, estimated future amortization expense related to intangible assets is \$16,600 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 \$21,800 thereafter.

7. Earnings (Loss) Per Common Share

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

	For the Three Month Period Ended March 31, 2019	For the Three Month Period Ended March 31, 2018	For the Nine Month Period Ended March 31, 2019	For the Nine Month Period Ended March 31, 2018
Net income (loss)	<u>\$ 93,600</u>	<u>\$ (37,700)</u>	<u>\$ 354,100</u>	<u>\$ (351,500)</u>
Weighted average common shares outstanding	1,494,112	1,494,112	1,494,112	1,494,112
Effect of dilutive securities	<u>23,007</u>	<u>-</u>	<u>15,248</u>	<u>-</u>
Weighted average dilutive common shares outstanding	1,517,119	1,494,112	1,509,360	1,494,112
Basic earnings (loss) per common share	\$.06	\$ (.03)	\$.24	\$ (.24)
Diluted earnings (loss) per common share	<u>\$.06</u>	<u>\$ (.03)</u>	<u>\$.23</u>	<u>\$ (.24)</u>

Approximately 1,750 and 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 nine month periods ended March 31, 2019 and 2018, respectively, 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 \$193,500 for the three months ended March 31, 2019 compared to a loss before income tax benefit of \$83,900 for the three months ended March 31, 2018, 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 \$519,900 for the nine months ended March 31, 2019 compared to a loss before income tax benefit of \$374,100 for the nine months ended March 31, 2018 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 and contingent consideration liability adjustments of \$633,300 and \$785,200 for the three and nine month periods ended March 31, 2019 compared to \$521,700 and \$675,800 for the corresponding three and nine month periods in 2018.

Results of Operations.

The Three Months Ended March 31, 2019 Compared with The Three Months Ended March 31, 2018

Net revenues for the three months ended March 31, 2019 increased \$954,200 (45.5%) to \$3,053,500 from \$2,099,300 for the three months ended March 31, 2018, reflecting increased earned bioprocessing royalties of \$374,600, increased sales of catalyst research instruments of \$397,900, and increased sales of benchtop laboratory equipment of \$181,700. The benchtop laboratory equipment sales reflected \$522,400 of Torbal brand product sales for the three months ended March 31, 2019 compared to \$328,800 in the three months ended March 31, 2018. The Bioprocessing Systems Operations benefitted from increased royalties, primarily in Europe, and the Catalyst Research Instruments benefitted from increased sales of custom products. As of March 31, 2019, the order backlog for catalyst research instruments was \$834,300, substantially all of which is expected to ship during fiscal year ending June 30, 2019, compared to \$1,175,800 as of March 31, 2018.

The overall gross profit percentage for the three months ended March 31, 2019 was 35.4% compared to 36.6% for the three months ended March 31, 2018.

General and administrative expenses for the three months ended March 31, 2019 increased by \$22,200 (4.7%) to \$492,400 compared to \$470,200 for the three months ended March 31, 2018, primarily due to increased routine legal expenses and fees paid to directors for Board of Directors meetings as compared to the same period last year.

Selling expenses for the three months ended March 31, 2019 increased \$18,300 (6.9%) to \$282,100 from \$263,800 for the three months ended March 31, 2018, due principally to sales commissions paid for catalyst research instruments sales.

Research and development expenses amounted to \$120,900 for the three months ended March 31, 2019 compared to \$117,700 for the three months ended March 31, 2018.

Total other income, net was \$7,800 for the three months ended March 31, 2019 compared to \$0 for the three months ended March 31, 2018 due to gains on redemptions of investment securities.

The Company reflected income tax expense of \$99,900 for the three months ended March 31, 2019 compared to income tax benefit of \$46,200 for the three months ended March 31, 2018, primarily resulting from the income for the current period.

As a result of the foregoing, the Company recorded net income of \$93,600 for the three months ended March 31, 2019 compared to a net loss of (\$37,700) for the three months ended March 31, 2018.

The Nine Months Ended March 31, 2019 Compared with The Nine Months Ended March 31, 2018

Net revenues for the nine months ended March 31, 2019 increased \$1,982,700 (37.6%) to \$7,255,300 from \$5,272,600 for the nine months ended March 31, 2018, reflecting an increase of \$791,200 in net sales of benchtop laboratory equipment resulting from increased orders for Genie and Torbal brand products, an increase of \$660,200 in net sales of catalyst research instruments derived from sales of custom products, and an increase of \$531,300 in bioprocessing earned royalties. The benchtop laboratory equipment sales reflected \$1,406,400 of Torbal brand product sales for the nine months ended March 31, 2019, compared to \$993,000 in the nine months ended March 31, 2018.

The overall gross profit percentage for the nine months ended March 31, 2019 was 41.4% compared to 37.7% for the nine months ended March 31, 2018 mainly as a result of the higher sales and improved gross margins by the Catalyst Research Instruments Operations and increased royalties earned by the Bioprocessing Systems Operations.

General and administrative expenses for the nine months ended March 31, 2019 increased \$64,400 (4.9%) to \$1,371,000 from \$1,306,600 for the nine months ended March 31, 2018, mainly due to various increases in administrative expenses by the Benchtop Laboratory Equipment Operations, including routine legal expenses and fees paid to the directors for Board of Directors meetings compared to the same period last year.

Selling expenses for the nine months ended March 31, 2019 increased \$86,900 (12.8%) to \$766,400 from \$679,500 for the nine months ended March 31, 2018, due to increased online advertising for the Torbal product line and sales commissions related to the Benchtop Laboratory Equipment Operations.

Research and development expenses decreased by \$32,100 (8.5%) to \$347,600 for the nine months ended March 31, 2019 compared to \$379,700 for the nine months ended March 31, 2018, 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 autumn of 2019.

Total other income was \$2,300 for the nine months ended March 31, 2019 compared to \$6,400 for the nine months ended March 31, 2018 primarily due to lower income on investment securities.

The Company reflected income tax expense of \$165,800 for the nine months ended March 31, 2019 compared to an income tax benefit of \$22,600 for the nine months ended March 31, 2018, primarily due to the income during the period.

As a result of the foregoing, the Company recorded net income of \$354,100 for the nine months ended March 31, 2019 compared to a net loss of (\$351,500) for the nine months ended March 31, 2018.

Liquidity and Capital Resources. Cash and cash equivalents increased by \$301,100 to \$1,354,200 as of March 31, 2019 from \$1,053,100 as of June 30, 2018 primarily due to income during the period.

Net cash provided by operating activities was \$484,700 for the nine months ended March 31, 2019 compared to \$150,200 used during the nine months ended March 31, 2018. The current period reflected higher income, and decreased change in the use of cash for inventories and accounts payable compared to the last period, partially offset by change in accounts receivable balances. Net cash used in investing activities was \$153,800 for the nine months ended March 31, 2019 compared to \$88,600 used during the nine months ended March 31, 2018 primarily due to increased capital equipment purchases during the current period by the Benchtop Laboratory Equipment Operations. The Company used \$29,800 in financing activities in the nine months ended March 31, 2019 compared to \$107,700 in the nine months ended March 31, 2018 mainly due to contingent consideration payments of \$142,700 in the prior year.

The Company's working capital increased by \$873,500 to \$4,991,700 as of March 31, 2019 compared to \$4,118,200, as of June 30, 2018 primarily 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 5.50%. Advances on the line, are secured by a pledge of the Company's assets including inventory, accounts, chattel paper, equipment and general intangibles. As of March 31, 2019, \$50,000 was outstanding under the line which was repaid in April 2019.

Management believes that the Company will be able to meet its cash flow needs during the 12 months ending March 31, 2020 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, the Company's management performed an evaluation of the effectiveness 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). Based on this evaluation, the Chief Executive and Chief Financial Officer of the Company has concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2019, because of the identification of a material weakness in internal control over financial reporting which related to the accounting for the fair market value of a contingent consideration liability related to its Bioprocessing Systems Operations. Notwithstanding the material weakness that existed as of March 31, 2019, the Chief Executive and Chief Financial Officer of the Company has concluded that the financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company and its subsidiaries in conformity with accounting principles generally accepted in the United States of America ("GAAP").

PART II – OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Exhibit Number	Description
31.0	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	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: None

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: May 14, 2019

SCIENTIFIC INDUSTRIES, INC.
(Registrant)

/s/ Helena R. Santos

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