

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 December 31, 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

(State or other jurisdiction
of incorporation or
organization)

04-2217279

(IRS Employer Identification No.)

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

Indicate by check mark whether the registrant is a large accelerated
filer, an accelerated filer, a non-accelerated filer, or a smaller
reporting company. See the definitions of "large accelerated filer,"
"Accelerated filer" and "smaller reporting company" in Rule 12b-2 of
the Exchange Act.

Large accelerated filer Accelerated Filer

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

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

Yes No

The number of shares outstanding of the issuer's common stock par
value, \$0.05 per share, as of February 3, 2017 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

	December 31, 2016 <u>(Unaudited)</u>	June 30, 2016 <u></u>
Current Assets:		
Cash and cash equivalents	\$ 897,100	\$ 1,245,000
Investment securities	290,900	290,100
Trade accounts receivable, net	1,668,000	1,231,900
Inventories	2,125,000	2,412,100
Prepaid expenses and other current assets	122,500	47,200
Deferred taxes	<u>127,500</u>	<u>140,600</u>
Total current assets	5,231,000	5,366,900
Property and equipment at cost, net	220,200	251,100
Intangible assets, net	758,300	897,600
Goodwill	705,300	705,300
Other assets	52,500	52,500
Deferred taxes	<u>277,500</u>	<u>275,900</u>
Total assets	<u>\$7,244,800</u>	<u>\$7,549,300</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 300,200	\$ 342,400
Customer advances	17,000	-
Bank line of credit	250,000	-
Notes payable, current portion	6,500	6,400
Dividends payable	44,700	-
Accrued expenses and taxes, current portion	510,300	849,700
Contingent consideration, current portion	<u>161,800</u>	<u>136,500</u>
Total current liabilities	1,290,500	1,335,000
Notes payable, less current portion	9,200	12,500
Contingent consideration payable, less current portion	67,100	209,800
Accrued expenses, less current portion	-	60,000
Total liabilities	<u>1,366,800</u>	<u>1,617,300</u>
Shareholders' equity:		
Common stock, \$.05 par value; authorized 7,000,000 shares;		
1,508,914 outstanding at		
December 31, 2016 and June 30, 2016	75,400	75,400
Additional paid-in capital	2,499,500	2,498,500
Accumulated other comprehensive income (loss)	(6,000)	900
Retained earnings	<u>3,361,500</u>	<u>3,409,600</u>
	5,930,400	5,984,400
Less common stock held in treasury, at cost, 19,802 shares	<u>52,400</u>	<u>52,400</u>
Total shareholders' equity	<u>5,878,000</u>	<u>5,932,000</u>
Total liabilities and shareholders' equity	<u>\$7,244,800</u>	<u>\$7,549,300</u>

See notes to unaudited condensed consolidated financial statements

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

	For the Three Month Periods Ended		For the Six Month Periods Ended	
	December 31, _____		December 31, _____	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues	\$2,683,800	\$2,028,200	\$4,242,900	\$3,472,600
Cost of revenues	<u>1,888,900</u>	<u>1,190,500</u>	<u>2,778,400</u>	<u>2,039,800</u>
Gross profit	<u>794,900</u>	<u>837,700</u>	<u>1,464,500</u>	<u>1,432,800</u>
Operating Expenses:				
General & administrative	409,200	395,700	821,600	803,900
Selling	224,200	227,200	440,900	394,200
Research & development	<u>105,000</u>	<u>84,100</u>	<u>220,400</u>	<u>169,500</u>
Total operating expenses	<u>738,400</u>	<u>707,000</u>	<u>1,482,900</u>	<u>1,367,600</u>
Income (loss) from operations	<u>56,500</u>	<u>130,700</u>	<u>(18,400)</u>	<u>65,200</u>
Other income (expense):				
Interest income	8,800	5,000	9,100	5,400
Other	400	1,400	5,700	(3,300)
Interest expense	<u>(900)</u>	<u>(14,000)</u>	<u>(1,100)</u>	<u>(22,100)</u>
Total other income, (expense), net	<u>8,300</u>	<u>(7,600)</u>	<u>13,700</u>	<u>(20,000)</u>
Income (loss) before income tax expense (benefit)	<u>64,800</u>	<u>123,100</u>	<u>(4,700)</u>	<u>45,200</u>
Income tax expense (benefit):				
Current	20,900	40,900	(15,400)	40,900
Deferred	<u>(1,400)</u>	<u>(12,200)</u>	<u>14,100</u>	<u>(30,000)</u>
Total income tax expense (benefit)	<u>19,500</u>	<u>28,700</u>	<u>(1,300)</u>	<u>10,900</u>
Net income (loss)	<u>\$ 45,300</u>	<u>\$ 94,400</u>	<u>(\$ 3,400)</u>	<u>\$ 34,300</u>
Basic and diluted earnings per common share	\$.03	\$.06	\$.00	\$.02
Cash dividends declared per common share	\$.03	\$ -	\$.03	\$ -

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 Periods Ended		For the Six Month Periods Ended	
	December 31, ___	December 31, ___	December 31, ___	December 31, ___
	2016__	2015__	2016	2015__
Net income (loss)	\$ 45,300	\$ 94,400	(\$ 3,400)	\$ 34,300
Other comprehensive income (loss):				
Unrealized holding loss on investments arising during period, net of tax	(8,000)	(1,100)	(6,900)	(4,900)
Comprehensive income (loss)	<u>\$ 37,300</u>	<u>\$ 93,300</u>	<u>(\$ 10,300)</u>	<u>\$ 29,400</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 Periods Ended December 31, 2016	December 31, 2015
Operating activities:		
Net income (loss)	(\$ 3,400)	\$ 34,300
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Loss on asset disposal	-	2,700
Loss on sale of investments	(2,600)	-
Depreciation and amortization	189,500	210,800
Deferred income tax benefit expense	14,100	(30,000)
Stock-based compensation	1,000	1,200
Changes in operating assets and liabilities:		
Accounts receivable	(436,100)	211,600
Inventories	287,100	(1,048,800)
Prepaid expenses and other current assets	(75,300)	13,000
Accounts payable	(42,200)	144,500
Customer advances	17,000	33,700
Accrued expenses and taxes	(399,400)	259,600
Total adjustments	<u>(446,900)</u>	<u>(201,700)</u>
Net cash used in operating activities	<u>(450,300)</u>	<u>(167,400)</u>
Investing activities:		
Redemption of investment securities, available-for-sale	11,100	-
Purchase of investment securities, available-for-sale	(18,700)	(2,700)
Capital expenditures	(4,700)	(8,400)
Purchase of other intangible assets	(14,700)	(5,700)
Net cash used in investing activities	<u>(27,000)</u>	<u>(16,800)</u>
Financing activities:		
Line of credit proceeds	250,000	470,000
Payment of contingent consideration	(117,400)	(100,900)
Principal payments on note payable	(3,200)	-
Net cash provided by financing activities	<u>129,400</u>	<u>369,100</u>
Net increase (decrease) in cash and cash equivalents	(347,900)	184,900
Cash and cash equivalents, beginning of year	<u>1,245,000</u>	<u>482,000</u>
Cash and cash equivalents, end of period	<u>\$ 897,100</u>	<u>\$ 666,900</u>
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	\$ 186,000	\$ 18,500
Interest	1,100	4,400

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, 2016. The results for the three and six months ended December 31, 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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 become 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 FASB issued ASU No. 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 for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors ("Benchtop Laboratory Equipment"), the manufacture and marketing of custom-made catalyst research instruments for universities, government laboratories, and chemical and petrochemical companies sold on a direct basis ("Catalyst Research Instruments") and the marketing and production of bioprocessing systems for laboratory research in the biotechnology industry sold directly to customers and through distributors ("Bioprocessing Systems").

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

	<u>Benchtop Laboratory Equipment</u>	<u>Catalyst Research Instruments</u>	<u>Bioprocessing Systems</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
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Three months ended December 31, 2016:

Revenues	\$1,466,800	\$1,192,100	\$ 24,900	\$ -	\$2,683,800
Foreign Sales	751,800	10,300	-	-	762,100
Income (Loss) from Operations	62,600	26,600	(32,700)	-	56,500
Assets	4,131,400	1,982,800	434,700	695,900	7,244,800
Long-Lived Asset Expenditures	5,200	-	5,800	-	11,000
Depreciation and Amortization	76,700	4,500	12,600	-	93,800

	<u>Benchtop Laboratory Equipment</u>	<u>Catalyst Research Instruments</u>	<u>Bioprocessing Systems</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
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Three months ended December 31, 2015:

Revenues	\$1,583,500	\$ 414,500	\$ 30,200	\$ -	\$2,028,200
Foreign Sales	764,400	105,500	-	-	869,900
Income (Loss) from Operations	187,700	(10,100)	(32,900)	(14,000)	130,700
Assets	4,352,600	2,319,200	728,800	578,300	7,978,900
Long-Lived Asset Expenditures	1,900	-	5,700	-	7,600
Depreciation and Amortization	74,200	7,000	24,400	-	105,600

Approximately 55% and 53% of net sales of benchtop laboratory equipment (30% and 41% of total revenues) for the three month periods ended December 31, 2016 and 2015, respectively, were derived from the Company's main product, the Vortex-Genie 2® mixer, excluding accessories.

Approximately 21% and 19% of net sales of benchtop laboratory equipment (15% and 11% of total net revenues) were derived from Torbal brand products for the three months ended December 31, 2016 and 2015, respectively.

Two customers accounted in the aggregate for approximately 17% and 14% of the net sales of the Benchtop Laboratory Equipment Operations (9% and 11% of total net revenues) for the three months ended December 31, 2016 and 2015, respectively. 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 three and two customers (one of which is the same) represented approximately 99% and 92% of the Catalyst Research Instrument Operations' net sales, respectively, and 44% and 19% of total revenues for the three months ended December 31, 2016 and 2015, respectively.

	<u>Benchtop Laboratory Equipment</u>	<u>Catalyst Research Instruments</u>	<u>Bioprocessing Systems</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
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Six months ended December 31, 2016:

Revenues	\$2,923,600	\$1,269,600	\$ 49,700	\$ -	\$4,242,900
Foreign Sales	1,313,000	15,100	-	-	1,328,100
Income (Loss) from Operations	164,000	(115,000)	(67,400)	-	(18,400)
Assets	4,131,400	1,982,800	434,700	695,900	7,244,800
Long-Lived Asset Expenditures	13,600	-	5,800	-	19,400
Depreciation and Amortization	153,400	11,100	25,000	-	189,500

	<u>Benchtop Laboratory Equipment</u>	<u>Catalyst Research Instruments</u>	<u>Bioprocessing Systems</u>	<u>Corporate and Other</u>	<u>Consolidated</u>
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Six months ended December 31, 2015:

Revenues	\$2,846,500	\$ 567,500	\$ 58,600	\$ -	\$3,472,600
Foreign Sales	1,363,400	113,300	-	-	1,476,700
Income (Loss) from Operations	242,400	(92,200)	(62,900)	(22,100)	65,200
Assets	4,352,600	2,319,200	728,800	578,300	7,978,900
Long-Lived Asset Expenditures	8,400	-	5,700	-	14,100
Depreciation and Amortization	148,000	13,900	48,900	-	210,800

Approximately 52% and 50% of net sales of benchtop laboratory equipment (36% and 41% of total revenues) for the six month periods ended December 31, 2016 and 2015, respectively, were derived from the segment's main product, the Vortex-Genie 2® mixer, excluding accessories.

Two benchtop laboratory equipment customers, accounted in the aggregate for approximately 16% and 13% of the segment's net sales for the six month periods ended December 31, 2016 and 2015, and 11% of total revenues for both periods.

Approximately 23% and 20% of net sales of benchtop laboratory equipment (16% of total revenues for both periods) were derived from Torbal brand products for the six months ended December 31, 2016 and 2015, respectively.

For the six month periods ended December 31, 2016 and 2015, catalyst research each of the six month periods, accounted for approximately 97% and 88% of the segment's net sales and 29% and 14% of 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 December 31, 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

Assets:

	Fair Value at			
	December 31, 2016	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 897,100	\$ 897,100	\$ -	\$ -
Available for sale securities	290,900	290,900	-	-
Total	<u>\$1,188,000</u>	<u>\$1,188,000</u>	<u>\$ -</u>	<u>\$ -</u>

Liabilities:

Contingent consideration	<u>\$ 228,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,900</u>
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Fair Value Measurements Using Inputs
Considered as

Assets:

	Fair Value at June 30, 2016	Level 1	Level 2	Level 3
Cash and cash equivalents	\$1,245,000	\$1,245,000	\$ -	\$ -
Available for sale securities	290,100	290,100	-	-
Total	<u>\$1,535,100</u>	<u>\$1,535,100</u>	<u>\$ -</u>	<u>\$ -</u>

Liabilities:

Contingent consideration	<u>\$ 346,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$346,300</u>
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The following table sets forth an analysis of changes during the six months ended December 31, 2016, Level 3 financial liabilities of the Company:

Beginning balance, June 30, 2016	\$346,300
Payments	(117,400)
Ending Balance, December 31, 2016	<u>\$228,900</u>

Investments in marketable securities classified as available-for-sale by security type at December 31, 2016 and June 30, 2016 consisted of the following:

	Cost	Fair Value	Unrealized Holding Gain (Loss)
At December 31, 2016:			
Available for sale:			
Equity securities	\$ 36,500	\$ 48,500	\$ 12,000
Mutual funds	260,400	242,400	(18,000)
	<u>\$ 296,900</u>	<u>\$ 290,900</u>	<u>\$ (6,000)</u>
At June 30, 2016:			
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 December 31, 2016 and based on a physical count as of June 30, 2016. Components of inventory are as follows:

	December 31, 2016	June 30, 2016
Raw Materials	\$1,365,900	\$1,529,800
Work in process	392,600	425,300
Finished Goods	366,500	457,000
	<u>\$2,125,000</u>	<u>\$2,412,100</u>

6. Earnings (loss) per common share:

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

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

	For the Three Month Periods Ended December 31,		For the Six Month Period Ended December 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net income (loss)	\$ 45,300	\$ 94,400	(\$ 3,400)	\$ 34,300
Weighted average common shares outstanding	1,489,112	1,489,112	1,489,112	1,489,112
Dilutive securities	-	-	-	-
Weighted average dilutive common shares outstanding	<u>1,489,112</u>	<u>1,489,112</u>	<u>1,489,112</u>	<u>1,489,112</u>
Basic and diluted earnings (loss) per common share	<u>\$.03</u>	<u>\$.06</u>	<u>(\$.00)</u>	<u>\$.02</u>

Approximately 43,500 and 38,500 shares of the Company's Common Stock issuable upon the exercise of outstanding stock options were excluded from the calculation of diluted earnings per common share for the three and six month periods ended December 31, 2016 and 2015, respectively, because the effect would be anti-dilutive.

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 acquisitions. Goodwill amounted to \$705,300 as of December 31, 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 December 31, 2016:				
Technology, trademarks	5/10 yrs.	\$ 722,800	\$ 510,900	\$ 211,900
Trade names	6 yrs.	140,000	66,100	73,900
Websites	5 yrs.	210,000	119,000	91,000
Customer relationships	9/10 yrs.	357,000	274,800	82,200
Sublicense agreements	10 yrs.	294,000	150,700	143,300
Non-compete agreements	5 yrs.	384,000	267,300	116,700
Intellectual Property, Research & Development (IPR&D)	3 yrs.	110,000	103,900	6,100
Other intangible assets	5 yrs.	<u>192,700</u>	<u>159,500</u>	<u>33,200</u>
		<u>\$2,410,500</u>	<u>\$1,652,200</u>	<u>\$ 758,300</u>

	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 & Development (IPR&D)	3 yrs.	110,000	85,500	24,500
Other intangible assets	5 yrs.	<u>177,900</u>	<u>154,700</u>	<u>23,200</u>
		<u>\$2,395,700</u>	<u>\$1,498,100</u>	<u>\$ 897,600</u>

Total amortization expense was \$76,200 and \$87,500 for the three months ended December 31, 2016 and 2015, respectively and \$154,100 and \$173,800 for the six months ended December 31, 2016 and 2015, respectively. As of December 31, 2016, estimated future amortization expense related to intangible assets is \$143,300 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 \$27,300 thereafter.

Item 2. Management's Discussion and Analysis or Plan of Operations

Certain statements contained in this report are not based on historical facts, but are forward-looking statements that are based upon various assumptions about future conditions. Actual events in the future could differ materially from those described in the forward-looking information. Numerous unknown factors and future events could cause such differences, including but not limited to, product demand, market acceptance, impact of competition, the ability to reach final agreements, the ability to finance and produce to customers' specifications catalyst research instruments, and to develop marketable bioprocessing systems, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control. Consequently, no forward-looking statement can be guaranteed.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$347,900 to \$897,100 as of December 31, 2016 from \$1,245,000 as of June 30, 2016.

Net cash used in operating activities was \$450,300 for the six months ended December 31, 2016 compared to \$167,400 used during the six months ended December 31, 2015. The current year period reflected a loss as compared to income in the prior year period, higher accounts receivable balances, increased prepayments to vendors, and lower accounts payable and decreased accrued expense items, partially offset by lower inventories. Cash used in investing activities was \$27,000 for the six months ended December 31, 2016 compared to \$16,800 for the six months ended December 31, 2015 primarily due to fixed asset and intangibles purchases. Cash provided by financing activities was \$129,300 for the six months ended December 31, 2016 compared to \$184,900 for the six months ended December 31, 2015 primarily due to lower amounts of line of credit proceeds and higher contingent consideration payments.

The Company's working capital decreased by \$91,400 to \$3,940,500 at December 31, 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 3.75%. 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 December 31, 2016 the Company had \$250,000 outstanding which was paid in January 2017.

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 recorded income before income tax expense of \$64,800 and \$123,100 for the three month periods ended December 31, 2016 and 2015, respectively; and loss before income tax benefit of \$4,700 and income before income tax expense of \$45,200 for the six month periods ended December 31, 2016 and 2015, respectively primarily due to lower gross profit amounts generated by the Benchtop Laboratory Equipment Operations and higher operating expenses. The results reflect non-cash amounts for depreciation and amortization of \$93,800 and \$189,500 for the three and six months ended December 31, 2015 compared to \$105,600 and \$210,800 respectively.

The Three Months Ended December 31, 2016 Compared With the Three Months Ended December 31, 2015

Net revenues for the three months ended December 31, 2016 increased by \$655,600 (32.3%) to \$2,683,800 from \$2,028,200 for the three months ended December 31, 2015, primarily as a result of a \$777,600 increase in sales of catalyst research instruments, partially offset by decreases of \$116,700 and \$5,300 in sales and revenues of benchtop laboratory equipment and bioprocessing products. Sales of the benchtop laboratory equipment products generally are pursuant to many small purchase orders from distributors, while catalyst research instruments are sold pursuant to a small number of larger orders, typically averaging over \$100,000 each, resulting in significant swings in revenues. The backlog of orders for catalyst research instruments was \$397,300 at December 31, 2016 compared to \$3,102,000 as of December 31, 2015, the majority of which are anticipated to be delivered by June 30, 2017.

The gross profit percentage for the three months ended December 31, 2016 decreased to 29.6% compared to 41.3% for the year earlier three month period primarily due to lower gross profit margins by the Catalyst Research Instrument Operations due to sales mix.

General and administrative expenses for the three month comparative periods ended December 31, 2016 and December 31, 2015 increased by \$13,500 (3.4%) to \$409,200 from \$395,700 primarily due to various expenses incurred by the Benchtop Laboratory Equipment Operations.

Selling expenses for the three months ended December 31, 2016 amounted to \$224,200 compared to \$227,200 for the three months ended December 31, 2015.

Research and development expenses for the three months ended December 31, 2016 increased \$20,900 (24.9%) to \$105,000 from \$84,100 for the three months ended December 31, 2015, primarily the result of increased new product development by the Company's Benchtop Laboratory Equipment Operations and the Bioprocessing Systems Operations.

Total other income (expense), net for the three month period ended December 31, 2016 increased by \$15,900 to \$8,300 from (\$7,600) for the three month period ended December 31, 2015 due to decreased interest expense as a result of less borrowings.

For the three months ended December 31, 2016, income tax expense was \$19,500 compared to \$28,700 for the three months ended December 31, 2015 due to the decreased income for the period.

As a result, the net income for the three months ended December 31, 2016 was \$45,300 compared to \$94,400 for the three months ended December 31, 2015.

The Six Months Ended December 31, 2016 Compared With the Six Months Ended December 31, 2015

Net revenues for the six months ended December 31, 2016 increased by \$770,300 (22.2%) to \$4,242,900 compared to \$3,472,600 for the six months ended December 31, 2015, primarily due to increases of \$702,100 and \$77,100 in sales of catalyst research instruments and benchtop laboratory equipment, respectively, partially offset by a \$8,900 decrease in revenues of the Bioprocessing Systems Operations. Sales of benchtop laboratory equipment products generally are comprised of many small purchase orders from distributors, while sales of catalyst research instruments are comprised of a small number of large orders, typically averaging over \$100,000 each, resulting in significant swings in revenues.

The gross profit percentage for the six months ended December 31, 2016 decreased to 34.5% compared to 41.3% for the six months ended December 31, 2014, primarily due to lower gross profit margins by the Catalyst Research Instrument Operations due to sales mix.

General and administrative expenses increased by \$17,700 (2.2%) to \$821,600 for the six months ended December 31, 2016 from \$803,900 for the comparable period of the prior year, primarily due to various expenses incurred by the Benchtop Laboratory Equipment Operations.

Selling expenses for the six months ended December 31, 2016 increased by \$46,700 (11.8%) to \$440,900 from \$394,200 for the six months ended December 31, 2015, primarily due to online advertising for the Benchtop Laboratory Equipment Operations.

Research and development expenses for the six months ended December 31, 2016 increased by \$50,900 (30.0%) to \$220,400 compared to \$169,500 for the six months ended December 31, 2015, primarily the result of increased new product development by the Company's Benchtop Laboratory Equipment Operations and the Bioprocessing Systems Operations.

Total other income (expense), net, for the six month period ended December 31, 2016 increased to \$13,700 from (\$20,000) for the six months ended December 31, 2015 primarily due to decreased interest expense and miscellaneous income items.

For the six month period ended December 31, 2016 the income tax benefit was \$1,300 compared to income tax expense of \$10,900 for the comparable period of the prior fiscal year due to the loss during the current year period compared to income in the prior year.

As a result, the net loss for the six months ended December 31, 2016 was \$3,400 compared to net income of \$34,300 for the six months ended December 31, 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.

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:

Report dated November 15, 2016 reporting under Item 8.01.

Report dated January 15, 2017 reporting under Item 8.01.

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

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

Date: February 10, 2017

CERTIFICATION

I, Helena R. Santos, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended December 31, 2016 of Scientific Industries, Inc., a smaller reporting company (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such internal disclosure and procedures, or caused such controls and procedures to be designed under my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance, regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to affect, the Registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal controls over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

February 10, 2017

Helena R. Santos
Chief Executive Officer and Chief Financial Officer

