

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For quarterly period ended March 31, 2014

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

For the transition period from _____ to _____

Commission File Number: 0-6658

SCIENTIFIC INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware 04-2217279
(State or other jurisdiction (IRS Employer Identification No.)
of incorporation or
organization)

70 Orville Drive, Bohemia, New York 11716
(Address of principal executive offices) (Zip Code)

(631)567-4700
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since
last report)

Indicate by check whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange
Act during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), except for a Report on
Form 8-K required to be filed in February 2014 with respect to an
acquisition 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 April 25, 2014 was 1,469,112 shares.

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PART I-FINANCIAL INFORMATION
Item 1. Financial Statements

SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | ASSETS | |
|---|----------------------------------|--------------------|
| | March 31, 2014 (Unaudited) | June 30, 2013 |
| Current assets: | | |
| Cash and cash equivalents | \$ 343,000 | \$ 927,300 |
| Investment securities | 474,000 | 908,400 |
| Trade accounts receivable, net | 1,135,300 | 815,900 |
| Inventories | 2,249,300 | 1,705,600 |
| Prepaid expenses and other current assets | 125,900 | 59,000 |
| Deferred taxes | 89,000 | 86,600 |
| Total current assets | <u>4,416,500</u> | <u>4,502,800</u> |
| Property and equipment, net | 272,400 | 156,500 |
| Intangible assets, net | 1,883,000 | 773,500 |
| Goodwill | 705,300 | 589,900 |
| Other assets | 24,100 | 24,100 |
| Deferred taxes | 111,800 | 106,200 |
| Total assets | <u>\$7,413,100</u> | <u>\$6,153,000</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 234,700 | \$ 156,800 |
| Customer advances | 271,900 | 15,900 |
| Bank line of credit | 80,000 | - |
| Notes payable, current | 46,500 | 78,300 |
| Accrued expenses and taxes | 427,600 | 407,700 |
| Contingent consideration payable, current | 120,000 | 19,000 |
| Total current liabilities | <u>1,180,700</u> | <u>677,700</u> |
| Contingent consideration payable, less current portion | 408,700 | 51,600 |
| Notes payable, less current portion | - | 26,700 |
| Total liabilities | <u>1,589,400</u> | <u>756,000</u> |
| Shareholders' equity: | | |
| Common stock, \$.05 par value; authorized 7,000,000 shares; | | |
| 1,488,914 issued and outstanding at | | |
| March 31, 2014 and 1,357,465 at June 30, 2013 | 74,400 | 67,900 |
| Additional paid-in capital | 2,419,700 | 1,977,100 |
| Accumulated other comprehensive loss | (6,100) | (13,600) |
| Retained earnings | 3,388,100 | 3,418,000 |
| | <u>5,876,100</u> | <u>5,449,400</u> |
| Less common stock held in treasury, at cost, | | |
| 19,802 shares | 52,400 | 52,400 |
| Total shareholders' equity | <u>5,823,700</u> | <u>5,397,000</u> |
| Total liabilities and shareholders' equity | <u>\$7,413,100</u> | <u>\$6,153,000</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 March 31, | | For the Nine Month Periods Ended March 31, | |
|---|---|-------------------|--|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | \$1,786,300 | \$1,626,100 | \$4,970,200 | \$4,854,700 |
| Cost of sales | <u>1,088,900</u> | <u>810,700</u> | <u>2,860,500</u> | <u>2,744,700</u> |
| Gross profit | <u>697,400</u> | <u>815,400</u> | <u>2,109,700</u> | <u>2,110,000</u> |
| Operating expenses: | | | | |
| General & administrative | 461,800 | 320,800 | 1,108,100 | 910,000 |
| Selling | 198,000 | 188,600 | 602,800 | 536,000 |
| Research & development | <u>113,800</u> | <u>100,800</u> | <u>301,900</u> | <u>356,000</u> |
| Total operating expenses | <u>773,600</u> | <u>610,200</u> | <u>2,012,800</u> | <u>1,802,000</u> |
| Income (loss) from operations | (<u>76,200</u>) | <u>205,200</u> | <u>96,900</u> | <u>308,000</u> |
| Other income (expense): | | | | |
| Investment income | 1,000 | 5,700 | 19,500 | 11,600 |
| Other | (3,700) | 600 | (7,700) | 1,500 |
| Interest expense | (<u>900</u>) | (<u>1,100</u>) | (<u>2,400</u>) | (<u>3,800</u>) |
| Total other income, (expense) net | (<u>3,600</u>) | <u>5,200</u> | <u>9,400</u> | <u>9,300</u> |
| Income (loss) before income taxes (benefit) | (<u>79,800</u>) | <u>210,400</u> | <u>106,300</u> | <u>317,300</u> |
| Income tax expense (benefit): | | | | |
| Current | (1,400) | 53,600 | 40,200 | 74,800 |
| Deferred | (<u>18,700</u>) | <u>6,700</u> | (<u>11,400</u>) | <u>16,200</u> |
| Total income (loss) tax expense (benefit) | (<u>20,100</u>) | <u>60,300</u> | <u>28,800</u> | <u>91,000</u> |
| Net income (loss) | (<u>\$ 59,700</u>) | <u>\$ 150,100</u> | <u>\$ 77,500</u> | <u>\$ 226,300</u> |
| Basic earnings (loss) per common share | (\$.04) | \$.11 | \$.06 | \$.17 |
| Diluted earnings (loss) per common share | (\$.04) | \$.11 | \$.06 | \$.17 |
| Cash dividends declared per common share | \$.00 | \$.00 | \$.08 | \$.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 March 31, | | For the Nine Month Periods Ended March 31, | |
|---|---|------------------|--|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Net income (loss) | (\$ 59,700) | \$150,100 | \$ 77,500 | \$ 226,300 |
| Other comprehensive income: | | | | |
| Unrealized holding gain arising during period, net of tax | <u>10,100</u> | <u>3,900</u> | <u>7,500</u> | <u>16,800</u> |
| Comprehensive income (loss) | <u>(\$ 49,600)</u> | <u>\$154,000</u> | <u>\$ 85,000</u> | <u>\$ 243,100</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 Periods Ended March 31, 2014 | March 31, 2013 |
|--|--|----------------|
| Operating activities: | | |
| Net income | \$ 77,500 | \$ 226,300 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Loss on sale of investments | 17,300 | 7,400 |
| Depreciation and amortization | 154,000 | 132,400 |
| Deferred income tax (benefit) | (11,400) | 16,200 |
| Stock-based compensation | 14,900 | 7,600 |
| Changes in operating assets and liabilities, net of effect of acquisition: | | |
| Accounts receivable | (319,400) | (108,200) |
| Inventories | (399,700) | (631,500) |
| Prepaid expenses and other current assets | (66,900) | 104,200 |
| Accounts payable | 77,900 | 24,800 |
| Customer advances | 256,000 | 404,700 |
| Accrued expenses and taxes | 19,900 | 143,700 |
| Other assets | - | 1,600 |
| Total adjustments | (257,400) | 102,900 |
| Net cash provided by (used in) operating activities | (179,900) | 329,200 |
| Investing activities: | | |
| Cash paid for asset acquisition | (700,000) | - |
| Redemption of investment securities, available-for-sale | 450,900 | 717,600 |
| Purchase of investment securities, available-for-sale | (25,000) | (716,900) |
| Capital expenditures | (47,100) | (28,100) |
| Purchase of other intangible assets | (2,900) | (2,100) |
| Net cash used in investing activities | (324,100) | (29,500) |
| Financing activities: | | |
| Line of credit proceeds | 150,000 | - |
| Line of credit repayments | (70,000) | - |
| Payments of contingent consideration | (1,100) | (25,900) |
| Proceeds from exercise of stock options | 6,700 | - |
| Cash dividend declared and paid | (107,400) | (40,100) |
| Principal payments on note payable | (58,500) | (56,600) |
| Net cash used in financing activities | (80,300) | (122,600) |
| Net increase (decrease) in cash and cash equivalents | (584,300) | 177,100 |
| Cash and cash equivalents, beginning of year | 927,300 | 769,300 |
| Cash and cash equivalents, end of period | \$ 343,000 | \$ 946,400 |
| Supplemental disclosures: | | |
| Cash paid during the period for: | | |
| Income taxes | \$ 152,100 | \$ - |
| Interest | 2,400 | 3,800 |

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

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, 2013. The results for the three and nine months ended March 31, 2014, are not necessarily an indication of the results for the full fiscal year ending June 30, 2014.

1. Summary of significant accounting policies:

Principles of consolidation:

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

2. New Accounting Pronouncements:

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), which clarifies the presentation requirements of unrecognized tax benefits when a net operating loss carries forward, a similar tax loss, or a tax credit carry forward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied prospectively. The adoption of this ASU did not have a material impact to the Company's consolidated financial statements.

3. Acquisition:

On February 26, 2014, the Company acquired substantially all the assets of a privately held company (the "Seller") engaged in the production and sale of a variety of laboratory and pharmacy balances and scales from its facility in Clifton, New Jersey. The acquisition was pursuant to an asset purchase agreement (the "Agreement") between the Company and the Seller and the principal stockholders of the Seller whereby the Company paid the Seller \$700,000 in cash, 126,449 shares of Common Stock valued at \$427,500 (of which 31,612 are held in escrow for one year) and agreed to make additional cash payments based on a percentage of net sales of the business acquired equal to 8% for the period ending June 30, 2014 annualized, 9% for the year ending June 30, 2015, 10% for the year ending June 30, 2016, and 11% for the year ending June 30, 2017, estimated at a present value of \$460,000 on the date of acquisition.

The products which are similar to the Company's other Benchtop Laboratory Equipment, and in many cases used by the same customers, are marketed under the Torbal® brand. The principal customers are pharmacies, pharmacy schools, universities, government laboratories, and industries utilizing a precision scale. The products are sold primarily on a direct basis, including through the Company's e-commerce site.

Management of the Company allocated the purchase price based on its valuation of the assets acquired, as follows:

| | |
|-------------------------|---------------------|
| Current Assets | \$ 144,000 |
| Property and Equipment | 118,100 |
| Goodwill* | 115,400 |
| Other Intangible Assets | <u>1,210,000</u> |
| Net Assets Acquired | <u>\$ 1,587,500</u> |

*See Note 8, "Goodwill and Other Intangible Assets".

Of the \$1,210,000 of the acquired other intangible assets, \$570,000 was assigned to technology and websites with a useful life of 5 years, \$120,000 was assigned to customer relationships with a estimated useful life of 9 years, \$140,000 was assigned to the trade name with a useful life of 5 years, \$110,000 was assigned to the IPR&D (intellectual property, and research and development) with a useful life of 3 years, and \$270,000 was assigned to non-compete agreements with a useful life of 5 years.

In connection with the acquisition, the Company entered into a three-year employment agreement with the Chief Operating Officer of the Seller as President of the Company's new Torbal Scales Division and Director of Marketing for the Company. The agreement may be extended by mutual consent for an additional two years.

Pro forma results

The unaudited pro forma condensed consolidated financial information in the table below summarizes the consolidated results of operations of the Company and its new Torbal Scales Division, as though the companies had been combined as of the beginning of each of the periods presented. The Company's results of operations for the three and nine months ended March 31, 2014 include the results of the Torbal Scales Division since February 26, 2014, the date of acquisition. The unaudited pro forma financial information presented below is for informational purposes only and is not intended to represent or be indicative of the consolidated results of the operations that would have been achieved if the acquisition had been completed as of the commencement of the periods presented. In addition, the Company was unable to obtain audited historical financial statements and, therefore, information presented is based on management's best judgment using the unaudited financial information provided and management's expectations.

| | For the Three Month Periods Ended March 31, | | For the Nine Month Periods Ended March 31, | |
|-----------------------------|---|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net Sales | \$2,006,300 | \$1,956,100 | \$5,900,200 | \$5,934,700 |
| Net Income (loss) | (\$ 73,100) | \$ 136,200 | \$ 59,600 | \$ 213,100 |
| Net income (loss) per share | | | | |
| - basic | (\$.05) | \$.09 | \$.04 | \$.15 |
| Net income (loss) per share | | | | |
| - diluted | (\$.05) | \$.09 | \$.04 | \$.15 |

4. Segment Information and Concentrations:

The Company views its operations as three segments: the manufacture and marketing of standard benchtop laboratory equipment including the balances and scales by its Torbal Scales Division for research in university, hospital and industrial laboratories sold primarily through laboratory equipment distributors and on a direct basis ("Benchtop Laboratory 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:

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

| | <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, 2013:

| | | | | | |
|----------------------------------|-------------|------------|-----------|---------|-------------|
| Revenues | \$1,229,800 | \$ 360,600 | \$ 35,700 | \$ - | \$1,626,100 |
| Foreign Sales | 645,300 | 107,300 | - | - | 752,600 |
| Income(Loss)from Operations | 243,300 | 3,600 | (41,700) | - | 205,200 |
| Assets | 2,719,500 | 1,932,600 | 904,600 | 916,800 | 6,473,500 |
| Long-Lived Asset Expenditures | 1,700 | 1,200 | - | - | 2,900 |
| Depreciation and Amortization | 10,700 | 8,700 | 24,000 | - | 43,400 |

Approximately 57% and 71% of net sales of benchtop laboratory equipment for the three month periods ended March 31, 2014 and 2013, respectively, were derived from the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

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

Two benchtop laboratory equipment customers accounted for approximately 22% and 27% of the segment's net sales for the three month periods ended March 31, 2014 and 2013 (15% and 20% of total net sales, respectively, for the periods).

Sales of catalyst research instruments are generally pursuant to large orders averaging more than \$100,000 per order to a limited numbers of customers. Sales to two customers in the three months ended March 31, 2014 and three different customers in the three months ended March 31, 2013, accounted respectively for 94% and 92% of the segment's net sales for each of the periods (32% and 20% of total net sales for the respective periods).

| | <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, 2014:

| | | | | | |
|----------------------------------|-------------|-------------|------------|-----------|-------------|
| Revenues | \$3,401,200 | \$1,406,900 | \$ 162,100 | \$ - | \$4,970,200 |
| Foreign Sales | 2,049,100 | 367,100 | 2,000 | - | 2,418,200 |
| Income(Loss)from Operations | 299,100 | (112,500) | (10,200) | (79,500) | 96,900 |
| Assets | 4,017,100 | 1,847,900 | 873,300 | 674,800 | 7,413,100 |
| Long-Lived Asset Expenditures | 1,474,700 | 11,300 | 7,500 | - | 1,493,500 |
| Depreciation and Amortization | 55,300 | 26,100 | 72,600 | - | 154,000 |

| | <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, 2013:

| | | | | | |
|----------------------------------|-------------|-------------|------------|---------|-------------|
| Revenues | \$3,459,500 | \$1,309,700 | \$ 85,500 | \$ - | \$4,854,700 |
| Foreign Sales | 2,014,900 | 626,400 | - | - | 2,641,300 |
| Income(Loss)from Operations | 518,100 | (62,500) | (147,600) | - | 308,000 |
| Assets | 2,719,500 | 1,932,600 | 904,600 | 916,800 | 6,473,500 |
| Long-Lived Asset Expenditures | 10,900 | 19,300 | - | - | 30,200 |
| Depreciation and Amortization | 33,300 | 27,200 | 71,900 | - | 132,400 |

Approximately 63% and 69% of net sales of benchtop laboratory equipment for the nine month periods ended March 31, 2014 and 2013, respectively, were derived from sales of the Company's main product, the Vortex-Genie 2 mixer, excluding accessories.

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

Two benchtop laboratory equipment customers, accounted for approximately 21% and 24% of the segment's net sales (14% and 17% of total net sales) for the nine month periods ended March 31, 2014 and 2013, respectively.

Sales of catalyst research instruments to three customers in the nine months ended March 31, 2014 and to three other customers in the nine months ended March 31, 2013 accounted for approximately 59% and 49% of that segment's net sales (17% and 13% of total net sales) for the respective nine month periods.

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

5. Fair Value of Financial Instruments:

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

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

- Level 1 Inputs that are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2014 and June 30, 2013 according to the valuation techniques the Company used to determine their fair values:

Fair Value Measurements Using Inputs
Considered as

Assets:

| | Fair Value at March 31, 2014 | Level 1 | Level 2 | Level 3 |
|-------------------------------|---------------------------------|-------------------|-------------|-------------|
| Cash and cash equivalents | \$ 343,000 | \$ 343,000 | \$ - | \$ - |
| Available for sale securities | 474,000 | 474,000 | - | - |
| Total | <u>\$ 817,000</u> | <u>\$ 817,000</u> | <u>\$ -</u> | <u>\$ -</u> |

Liabilities:

| | | | | |
|--------------------------|-------------------|-------------|-------------|------------------|
| Contingent consideration | <u>\$ 528,700</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$528,700</u> |
|--------------------------|-------------------|-------------|-------------|------------------|

Fair Value Measurements Using Inputs
Considered as

Assets:

| | Fair Value at June 30, 2013 | Level 1 | Level 2 | Level 3 |
|-------------------------------|--------------------------------|--------------------|-------------|-------------|
| Cash and cash equivalents | \$ 927,300 | \$ 927,300 | \$ - | \$ - |
| Available for sale securities | 908,400 | 908,400 | - | - |
| Total | <u>\$1,835,700</u> | <u>\$1,835,700</u> | <u>\$ -</u> | <u>\$ -</u> |

Liabilities:

| | | | | |
|--------------------------|------------------|-------------|-------------|------------------|
| Contingent consideration | <u>\$ 70,600</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 70,600</u> |
|--------------------------|------------------|-------------|-------------|------------------|

Investments in marketable securities classified as available-for-sale by security type at March 31, 2014 and June 30, 2013 consisted of the following:

| | Cost | Fair Value | Unrealized Holding Gain (Loss) |
|---------------------|-------------------|-------------------|--------------------------------|
| At March 31, 2014: | | | |
| Available for sale: | | | |
| Equity securities | \$ 29,300 | \$ 37,400 | \$ 8,100 |
| Mutual funds | 450,800 | 436,600 | (14,200) |
| | <u>\$ 480,100</u> | <u>\$ 474,000</u> | <u>(\$ 6,100)</u> |

| | Cost | Fair Value | Unrealized Holding Gain (Loss) |
|---------------------|-------------------|-------------------|--------------------------------|
| At June 30, 2013: | | | |
| Available for sale: | | | |
| Equity securities | \$ 29,300 | \$ 33,200 | \$ 3,900 |
| Mutual funds | 892,700 | 875,200 | (17,500) |
| | <u>\$ 922,000</u> | <u>\$ 908,400</u> | <u>\$ (13,600)</u> |

6. Inventories:

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

| | March 31, 2014 | June 30, 2013 |
|-----------------|--------------------|--------------------|
| Raw Materials | \$1,507,700 | \$1,336,800 |
| Work in process | 504,600 | 254,000 |
| Finished Goods | 237,000 | 114,800 |
| | <u>\$2,249,300</u> | <u>\$1,705,600</u> |

7. Earnings (Loss) per common share:

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

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

| | For the Three Month Periods Ended March 31, | | For the Nine Month Periods Ended March 31, | |
|--|---|------------------|--|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income (loss) | (\$ 59,700) | \$ 150,100 | \$ 77,500 | \$ 226,300 |
| Weighted average common shares outstanding | 1,390,433 | 1,337,663 | 1,382,519 | 1,336,844 |
| Effect of dilutive securities | - | 4,701 | 9,741 | 4,543 |
| Weighted average dilutive common shares outstanding | <u>1,390,433</u> | <u>1,342,364</u> | <u>1,392,260</u> | <u>1,341,387</u> |
| Basic earnings (loss) per common share | (\$.04) | \$.11 | \$.06 | \$.17 |
| Diluted earnings (loss) per common share | (\$.04) | \$.11 | \$.06 | \$.17 |

Approximately 61,000 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted loss per common share, for the three month period ended March 31, 2014, because the effect would be anti-dilutive due to the loss for the period.

Approximately 40,000 shares of the Company's common stock issuable upon the exercise of outstanding options were excluded from the calculation of diluted earnings per common share for each of the three and nine month periods ended March 31, 2013, because the effect would be anti-dilutive.

8. Goodwill and Other Intangible Assets:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company's acquisitions. Goodwill amounted to \$705,300 and \$589,900 as of March 31, 2014 and June 30, 2013, respectively, all of which is deductible for tax purposes.

The components of other intangible assets are as follows:

| | <u>Useful Lives</u> | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
|-------------------------|-------------------------|--------------------|-------------------------------------|--------------------|
| At March 31, 2014: | | | | |
| Technology, trademarks | 5/10 yrs. | \$1,226,800 | \$ 455,300 | \$ 771,500 |
| Trade names | 6 yrs. | 140,000 | 1,900 | 138,100 |
| Websites | 5 yrs. | 210,000 | 3,500 | 206,500 |
| Customer relationships | 9/10 yrs. | 357,000 | 210,700 | 146,300 |
| Sublicense agreements | 10 yrs. | 294,000 | 69,800 | 224,200 |
| Non-compete agreements | 5 yrs. | 384,000 | 112,200 | 271,800 |
| IPR&D | 3 yrs. | 110,000 | 3,100 | 106,900 |
| Other intangible assets | 5 yrs. | <u>157,400</u> | <u>139,700</u> | <u>17,700</u> |
| | | <u>\$2,879,200</u> | <u>\$ 996,200</u> | <u>\$1,883,000</u> |

| | <u>Useful Lives</u> | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
|-------------------------|-------------------------|--------------------|-------------------------------------|-------------------|
| At June 30, 2013: | | | | |
| Technology, trademarks | 5/10 yrs. | \$ 865,400 | \$ 402,100 | \$ 463,300 |
| Customer relationships | 10 yrs. | 237,000 | 203,200 | 33,800 |
| Sublicense agreements | 10 yrs. | 294,000 | 47,800 | 246,200 |
| Non-compete agreements | 5 yrs. | 114,000 | 105,900 | 8,100 |
| Other intangible assets | 5 yrs. | <u>156,000</u> | <u>133,900</u> | <u>22,100</u> |
| | | <u>\$1,666,400</u> | <u>\$ 892,900</u> | <u>\$ 773,500</u> |

Total amortization expense was \$47,500 and \$27,900 for the three months ended March 31, 2014 and 2013, respectively and \$103,400 and \$85,200 for the nine months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, estimated future amortization expense related to intangible assets is \$87,500 for the remainder of the fiscal year ending June 30, 2014, \$347,600 for fiscal 2015, \$351,800 for fiscal 2016, \$336,600 for fiscal 2017, \$322,100 for fiscal 2018, and \$437,400 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 catalyst research instruments to customers' satisfaction, adverse economic conditions, and other factors affecting the Company's business that are beyond the Company's control. Consequently, no forward-looking statement can be guaranteed.

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

Liquidity and Capital Resources

Cash and cash equivalents decreased \$584,300 to \$343,000 as of March 31, 2014 from \$927,300 as of June 30, 2013.

Operating activities used cash of \$179,900 for the nine month period ended March 31, 2014 as compared to the \$329,200 of cash provided for the nine month period ended March 31, 2013, due mainly to lower income in the 2014 period, higher balances of accounts receivable and inventories and decreases in customer advances. The increase in cash used in investing activities to \$324,100 for the nine month period ended March 31, 2014 compared to \$29,500 for the nine month period ended March 31, 2013 was primarily due to the acquisition. Cash used in financing activities was \$80,300 for the nine month period ended March 31, 2014 compared to \$122,600 for the nine month period ended March 31, 2013, due primarily to the line of credit proceeds partially offset by an increased dividend payment.

On September 20, 2013, the Board of Directors of the Company declared a cash dividend of \$.08 per share of Common Stock which was paid on November 4, 2013 to holders of record as of the close of business on October 11, 2013.

The Company's working capital decreased by \$589,300 to \$3,235,800 as of March 31, 2014 from \$3,825,100 at June 30, 2013 mainly due to the assets purchased of the new Torbal Scales Division.

The Company has a line of credit with its bank, JPMorgan Chase Bank, N.A. which provides for maximum borrowings of up to \$700,000, bearing interest at 3.05 percentage points above a defined LIBOR Index. The interest rate as of March 31, 2014 was approximately 3.20% and any borrowing is to be secured by a pledge of collateral consisting of the inventory, accounts, chattel paper, equipment and general intangibles of the Company. Outstanding amounts are due and payable by June 14, 2014, the expiration date of the line. As of March 31, 2014, \$80,000 was outstanding under the line. There were no borrowings at June 30, 2013. The Company is currently negotiating line of credit terms with several financial institutions since the Company anticipates that the line will not be renewed.

Management believes that the Company will be able to meet its cash flow needs for the 12 months ended March 31, 2015 from its available financial resources, including its cash and cash equivalents, the line of credit and investment securities.

Results of Operations

Financial Overview

The Company recorded a loss before income taxes of \$79,800 for the three month period ended March 31, 2014, compared to income before income taxes of \$210,400 for the comparative period last year, primarily as a result of reduced sales of benchtop laboratory equipment, expenses related to the asset acquisition discussed in Note 2 and the related amortization expense. For the comparative nine month period ended March 31, 2014, the Company reflected income before income taxes of \$106,300 compared to \$317,300 for the comparable 2013 period, the lower income principally the result of reduced sales of benchtop laboratory equipment and catalyst research instruments, and the expenses related to the asset acquisition, partially offset by the profit derived from an order for bioprocessing product prototypes during the period that had minimal costs associated with the order, since the costs had been previously expensed as product development costs.

The Three Months Ended March 31, 2014 Compared With the Three Months Ended March 31, 2013

Net sales for the three months ended March 31, 2014 increased by \$160,200 (9.9%) to \$1,786,300 from \$1,626,100 for the three months ended March 31, 2013 as a result of a \$243,300 increase in catalyst research instrument sales, partially offset by decreases of \$52,400 and \$30,700 in laboratory equipment sales and bioprocessing systems revenues, respectively. The results for the three months ended March 31, 2014 included one month of laboratory balance sales. Sales of benchtop laboratory equipment products generally comprise many small orders from distributors, while catalyst research instruments are sold pursuant to a small number of larger orders, typically averaging over \$100,000 each, resulting in significant swings in revenues. The backlog of orders for catalyst research instruments was \$505,200 as of March 31, 2014, most of which is expected to be delivered by fiscal year end, as compared to the backlog of \$1,340,000 as of March 31, 2013, all of which was delivered by June 30, 2013.

The gross profit for the three months ended March 31, 2014 was 39.0% compared to 50.1% for the three months ended March 31, 2013, the reduction primarily the result of lower sales and higher overhead expenses of the Benchtop Laboratory Equipment Operations.

General and administrative expenses for the three months ended March 31, 2014 increased \$141,000 (44.0%) to \$461,800 compared to \$320,800 for the three months ended March 31, 2013, primarily due to the costs related to the asset acquisition.

Selling expenses for the three months ended March 31, 2014 increased \$9,400 (5.0%) to \$198,000 from \$188,600 for the three months ended March 31, 2013, primarily the result of increased dealer-related activities for the Benchtop Laboratory Equipment Operations.

Research and development expenses for the three months ended March 31, 2014 increased to \$113,800 from \$100,800 for the three months ended March 31, 2013, primarily the result of increased new product development activity by the Benchtop Laboratory Equipment Operations.

Total other income (expense) amounted to expense of \$3,600 for the three months ended March 31, 2014 compared to income of \$5,200 for the prior year period.

The Company recorded an income tax benefit of \$20,100 for the three months ended March 31, 2014 compared to an income tax expense of \$60,300 for the three months ended March 31, 2013 due to the losses in the current year period.

As a result of the foregoing, the net loss was \$59,700 for the three months ended March 31, 2014, compared to net income of \$150,100 for the three months ended March 31, 2013.

Nine Months Ended March 31, 2014 Compared With the Nine Months Ended March 31, 2013

Net sales increased by \$115,500 (2.4%) to \$4,970,200 for the nine months ended March 31, 2014 compared to \$4,854,700 for the nine months ended March 31, 2013, due to increases of \$97,200 in catalyst research instrument sales and \$76,600 in bioprocessing systems revenues; partially offset by a decrease of \$58,300 in benchtop laboratory equipment sales despite the addition of one month of sales of laboratory balance products. The revenues generated by the Bioprocessing Systems Operations benefitted from a one-time order for prototype bioprocessing products of approximately \$100,000, with the remaining revenues being derived from royalties. The products related to the order are still under development. 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 nine months ended March 31, 2014 was 42.5%, compared to 43.5% for the prior year nine month period due to lower margins for the Catalyst Research Instruments Operations.

General and administrative expenses increased by \$198,100 (21.8%) to \$1,108,100 for the nine months ended March 31, 2014 from \$910,000 for the comparable period last year, mostly as a result of costs related to the asset acquisition.

Selling expenses for the nine months ended March 31, 2014 increased by \$66,800 (12.5%) to \$602,800 compared to \$536,000 for the nine months ended March 31, 2013, primarily the result of increased dealer-related activities for the Benchtop Laboratory Equipment Operations, and commissions and exhibitions expense for the Catalyst Research Instruments Operations.

Research and development expenses for the nine months ended March 31, 2014 decreased by \$54,100 (15.2%) to \$301,900 from \$356,000 for the nine months ended March 31, 2013, primarily the result of a reduction in product development expenses by the Company's Bioprocessing Systems Operations due to the use of lower-cost consultants.

Total other income was approximately \$9,400 and \$9,300, respectively, for the nine month comparative periods ended March 31, 2014 and 2013.

Income tax expense for the nine months ended March 31, 2014 was \$28,800 compared to income tax expense of \$91,000 for the nine months ended March 31, 2013 due to the reduction in profits generated for the period.

As a result of the foregoing, net income for the nine months ended March 31, 2014 was \$77,500 compared to a \$226,300 for the nine months ended March 31, 2013.

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:

Filed on February 28, 2014 reporting under Items 1.01 and 2.01.

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: May 15, 2014

CERTIFICATION

I, Helena R. Santos, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended March 31, 2014 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.

May 15, 2014

Helena R. Santos
Chief Executive Officer and Chief Financial Officer

CERTIFICATION

The undersigned as Chief Executive Officer and Chief Financial Officer of the Company, does hereby certify that the foregoing Quarterly Report of SCIENTIFIC INDUSTRIES, INC. (the "Company"), on Form 10-Q for the period ended March 31, 2014:

- (1) Fully complies with the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934; and
- (2) Fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 15, 2014

Helena R. Santos
Chief Executive Officer and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.