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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2021

or

**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: **0-31641**

**SCI ENGINEERED MATERIALS, INC.**

(Exact name of registrant as specified in its charter)

**Ohio**  
(State or other jurisdiction of  
incorporation or organization)

**31-1210318**  
(I.R.S. Employer  
Identification No.)

**2839 Charter Street, Columbus, Ohio 43228**  
(Address of principal executive offices) (Zip Code)

**(614) 486-0261**  
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, without par value	SCIA	OTCQB

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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No   
4,501,248 shares of Common Stock, without par value, were outstanding at October 26, 2021.

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**SCI ENGINEERED MATERIALS, INC.**

**BALANCE SHEETS**

**ASSETS**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
	<b>(UNAUDITED)</b>	
<b>Current Assets</b>		
Cash	\$ 3,953,385	\$ 2,917,551
Accounts receivable		
Trade, less allowance for doubtful accounts of \$15,000	573,316	459,471
Tax - Employee Retention Credit	184,861	—
Inventories	1,982,028	1,180,359
Prepaid expenses	99,523	131,333
Total current assets	<u>6,793,113</u>	<u>4,688,714</u>
<b>Property and Equipment, at cost</b>		
Machinery and equipment	7,926,829	8,280,611
Furniture and fixtures	132,364	132,365
Leasehold improvements	596,867	592,899
Construction in progress	229,845	3,904
	<u>8,885,905</u>	<u>9,009,779</u>
Less accumulated depreciation	<u>(6,716,883)</u>	<u>(7,121,647)</u>
	<u>2,169,022</u>	<u>1,888,132</u>
Right of use asset, net	295,640	357,396
Deferred tax asset	703,132	1,019,317
Other assets	90,656	96,623
Total other assets	<u>1,089,428</u>	<u>1,473,336</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 10,051,563</u></b>	<b><u>\$ 8,050,182</u></b>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	September 30, 2021 (UNAUDITED)	December 31, 2020
<b>Current Liabilities</b>		
Finance lease obligations, current portion	\$ 108,832	\$ 160,416
Notes payable, current portion	—	252,577
Operating lease obligations, current portion	95,187	86,844
Accounts payable	312,655	147,284
Customer deposits	1,754,558	1,010,236
Accrued compensation	272,158	115,143
Accrued expenses and other	97,292	105,585
<b>Total current liabilities</b>	<b>2,640,682</b>	<b>1,878,085</b>
Finance lease obligations, net of current portion	171,087	243,218
Notes payable, net of current portion	—	72,723
Operating lease obligations, net of current portion	230,731	304,989
<b>Total liabilities</b>	<b>3,042,500</b>	<b>2,499,015</b>
<b>Shareholders' Equity</b>		
Convertible preferred stock, Series B, 10% cumulative, nonvoting, no par value, \$10 stated value, optional redemption at 103%; optional shareholder conversion 2 shares for 1; 24,152 shares issued and outstanding	508,400	514,438
Common stock, no par value, authorized 15,000,000 shares; 4,501,248 and 4,466,969 shares issued and outstanding, respectively	10,566,355	10,530,669
Additional paid-in capital	2,231,934	2,246,501
Accumulated deficit	(6,297,626)	(7,740,441)
	<b>7,009,063</b>	<b>5,551,167</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 10,051,563</b>	<b>\$ 8,050,182</b>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	2021	2020	2021	2020
Revenue	\$ 5,211,169	\$ 1,494,078	\$ 10,205,528	\$ 7,539,460
Cost of revenue	3,908,801	1,034,939	7,537,570	6,133,199
Gross profit	1,302,368	459,139	2,667,958	1,406,261
General and administrative expense	306,997	263,444	878,586	818,825
Research and development expense	56,612	83,276	149,208	260,601
Marketing and sales expense	61,732	44,862	159,559	144,033
Income from operations	877,027	67,557	1,480,605	182,802
Gain on extinguishment of debt	—	—	(325,300)	—
Interest expense	8,156	9,058	24,808	20,427
Income before provision for income taxes	868,871	58,499	1,781,097	162,375
Income tax expense	200,189	—	338,282	1,900
Net income	668,682	58,499	1,442,815	160,475
Dividends on preferred stock	6,038	6,038	18,114	18,114
<b>INCOME APPLICABLE TO COMMON SHARES</b>	<b>\$ 662,644</b>	<b>\$ 52,461</b>	<b>\$ 1,424,701</b>	<b>\$ 142,361</b>
Earnings per share - basic and diluted (Note 7)				
Income per common share				
Basic	\$ 0.15	\$ 0.01	\$ 0.32	\$ 0.03
Diluted	\$ 0.15	\$ 0.01	\$ 0.32	\$ 0.03
Weighted average shares outstanding				
Basic	4,500,256	4,436,185	4,492,736	4,411,390
Diluted	4,531,523	4,447,059	4,521,746	4,420,272

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)

	Convertible Preferred Stock, Series B	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
<b>Balance 12/31/2020</b>	\$ 514,438	\$ 10,530,669	\$ 2,246,501	\$ (7,740,441)	\$ 5,551,167
Accretion of cumulative dividends	18,114	—	(18,114)	—	—
Payment of cumulative dividends (Note 5)	(24,152)	—	—	—	(24,152)
Stock based compensation expense (Note 4)	—	—	3,547	—	3,547
Common stock issued (Note 4)	—	35,686	—	—	35,686
Net income	—	—	—	1,442,815	1,442,815
<b>Balance 9/30/2021</b>	<u>\$ 508,400</u>	<u>\$ 10,566,355</u>	<u>\$ 2,231,934</u>	<u>\$ (6,297,626)</u>	<u>\$ 7,009,063</u>
<b>Balance 6/30/2021</b>	\$ 502,362	\$ 10,558,867	\$ 2,236,790	\$ (6,966,308)	\$ 6,331,711
Accretion of cumulative dividends	6,038	—	(6,038)	—	—
Stock based compensation expense (Note 4)	—	—	1,182	—	1,182
Common stock issued (Note 4)	—	7,488	—	—	7,488
Net income	—	—	—	668,682	668,682
<b>Balance 9/30/2021</b>	<u>\$ 508,400</u>	<u>\$ 10,566,355</u>	<u>\$ 2,231,934</u>	<u>\$ (6,297,626)</u>	<u>\$ 7,009,063</u>
<b>Balance 12/31/2019</b>	\$ 514,438	\$ 10,410,677	\$ 2,265,925	\$ (9,242,204)	\$ 3,948,836
Accretion of cumulative dividends	18,114	—	(18,114)	—	—
Payment of cumulative dividends (Note 5)	(24,152)	—	—	—	(24,152)
Stock based compensation expense (Note 4)	—	—	3,546	—	3,546
Common stock issued (Note 4)	—	89,998	—	—	89,998
Net income	—	—	—	160,475	160,475
<b>Balance 9/30/2020</b>	<u>\$ 508,400</u>	<u>\$ 10,500,675</u>	<u>\$ 2,251,357</u>	<u>\$ (9,081,729)</u>	<u>\$ 4,178,703</u>
<b>Balance 6/30/20</b>	\$ 502,362	\$ 10,470,675	\$ 2,256,213	\$ (9,140,228)	\$ 4,089,022
Accretion of cumulative dividends	6,038	—	(6,038)	—	—
Stock based compensation expense (Note 4)	—	—	1,182	—	1,182
Common stock issued (Note 4)	—	30,000	—	—	30,000
Net income	—	—	—	58,499	58,499
<b>Balance 9/30/2020</b>	<u>\$ 508,400</u>	<u>\$ 10,500,675</u>	<u>\$ 2,251,357</u>	<u>\$ (9,081,729)</u>	<u>\$ 4,178,703</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,442,815	\$ 160,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and accretion	325,793	335,789
Amortization of right of use asset	61,756	57,265
Amortization of patents	3,311	2,827
Stock based compensation	39,233	93,544
Gain on disposal of equipment	(4,511)	(1,322)
Deferred tax asset	316,185	—
Gain on extinguishment of debt	(325,300)	—
Inventory reserve	900	1,921
Changes in operating assets and liabilities:		
Accounts receivable	(298,706)	(14,411)
Inventories	(802,569)	1,518,506
Prepaid expenses	31,810	11,825
Other assets	2,656	(13,594)
Accounts payable	165,371	(88,211)
Operating lease obligations	(65,915)	(59,739)
Accrued expenses and customer deposits	887,869	(1,500,314)
Net cash provided by operating activities	<u>1,780,698</u>	<u>504,561</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds on sale of equipment	18,091	3,063
Purchases of property and equipment	(615,088)	(49,023)
Net cash used in investing activities	<u>(596,997)</u>	<u>(45,960)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of cumulative dividends on preferred stock	(24,152)	(24,152)
Proceeds from SBA Paycheck Protection Program note payable	—	325,300
Principal payments on finance lease obligations and notes payable	(123,715)	(84,238)
Net cash (used in) provided by financing activities	<u>(147,867)</u>	<u>216,910</u>
<b>NET INCREASE IN CASH</b>	1,035,834	675,511
<b>CASH - Beginning of period</b>	<u>2,917,551</u>	<u>1,828,397</u>
<b>CASH - End of period</b>	<u>\$ 3,953,385</u>	<u>\$ 2,503,908</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest	\$ 9,256	\$ 10,736
Income taxes	338,282	1,900
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and equipment purchased by finance lease	—	306,973
Increase in asset retirement obligation	5,175	2,700

The accompanying notes are an integral part of these financial statements.

**SCI ENGINEERED MATERIALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Business Organization and Purpose**

SCI Engineered Materials, Inc. (“SCI”, or the “Company”), an Ohio corporation, was incorporated in 1987. The Company operates in one segment as a global supplier and manufacturer of advanced materials for Physical Vapor Deposition (“PVD”) Thin Film Applications. The Company is focused on markets within the PVD industry including Photonics, Solar, Glass and Transparent Electronics. Substantially all revenues are generated from customers with multi-national operations. The Company develops innovative customized solutions enabling commercial success through collaboration with end users and Original Equipment Manufacturers.

**Note 2. Summary of Significant Accounting Policies**

**Basis of Presentation** - The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation of the results of operations for the periods presented have been included. The financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2020. Interim results are not necessarily indicative of results for the full year.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition** - The Company enters into contracts with its customers that generally represent purchase orders specifying general terms and conditions, order quantities and per unit product prices. The Company has determined that each unit of product purchased represents a separate performance obligation. The Company satisfies its performance obligations and recognizes revenue at a point in time when control of a unit of product is transferred to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. For most product sales, transfer of control occurs when the products are shipped from the Company’s manufacturing facility to the customer. The cost of delivering products to the Company’s customers is recorded as a component of cost of products sold. Those costs may include the amounts paid to a third party to deliver the products. Any freight costs billed to and paid by a customer are included in revenue.

The Company considers collectability of amounts due under a contract to be probable upon inception of a sale based on an evaluation of the credit worthiness of each customer. The Company sells its products typically under agreements with payment terms less than 45 days. The Company does not typically include extended payment terms or significant financing components in contracts with customers. The majority of the Company’s contracts have an obligation to transfer products within one year. Thus, the Company elects to use the practical expedient where incremental cost of obtaining a contract, such as commissions, is expensed when incurred because the amortization period for those costs is one year or less. The Company treats shipping and handling activities that occur after control of the product transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation. Customer deposits are funds received in advance from customers and are recognized as revenue when the Company has transferred control of product to the customer. Product revenues are recognized upon shipment of goods as the customer has assumed the significant risks and rewards of ownership and the Company is entitled to payment at this point. Service revenues are recognized upon completion as the customer cannot realize the benefit of the service until fully completed.



**SCI ENGINEERED MATERIALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 2. Summary of Significant Accounting Policies (continued)**

During the three months ended September 30, 2021, and 2020, all revenue was from the photonics market. During the nine months ended September 30, 2021, and 2020, revenue from the photonics market was approximately 100% and 99%, respectively. The balance of the revenue in these periods was almost entirely from the thin film solar and thin film battery markets. The top two customers represented approximately 84% and 83% of total revenue for the nine months ended September 30, 2021, and 2020, respectively. International shipments resulted in 2% and 5% of total revenue for the first nine months of 2021 and 2020, respectively.

Employee Retention Credit (“ERC”) - The Company qualified for federal government assistance through ERC provisions of the Consolidated Appropriations Act of 2021 during the current fiscal year in the amount of \$255,507 for the first quarter of 2021, \$151,701 for the second quarter of 2021, and \$153,713 for the third quarter of 2021. The purpose of the ERC is to encourage employers to keep employees on the payroll, even if they are not working during the covered period because of the coronavirus outbreak. This credit is recorded in the Statement of Operations as an offset to payroll costs in their respective expense lines. A balance of \$184,861 appears as a tax receivable on the balance sheets at September 30, 2021.

American Rescue Plan Act of 2021 (“ARP”) – This act allows eligible employers with fewer than 500 employees to qualify for a tax credit for providing paid time off for each employee receiving COVID-19 vaccinations and for any time needed to recover from the vaccine. The Company received a credit of \$11,042 during the third quarter of 2021.

**Note 3. Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13 “Credit Losses - Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 significantly changes how entities will measure credit losses for most financial assets, including accounts and notes receivables, by replacing today’s “incurred loss” approach with an “expected loss” model under which allowances will be recognized based on expected rather than incurred losses. ASU No. 2016-13 will become effective for the Company in the first quarter of 2023. The Company is evaluating the impact that the adoption of this update will have on its financial statements.

**Note 4. Common Stock and Stock Options**

Stock Based Compensation cost for all stock awards is based on the grant date fair value and recognized over the required service (vesting) period. Non cash stock-based compensation expense was \$8,670 and \$31,182 for the three months ended September 30, 2021, and 2020, respectively. Noncash stock-based compensation expense was \$39,233 and \$93,544 for the nine months ended September 30, 2021, and 2020, respectively.

Unrecognized compensation expense was \$7,487 as of September 30, 2021, and will be recognized through 2023. There was no tax benefit recorded for this compensation cost as the expense primarily relates to incentive stock options that do not qualify for a tax deduction until, and only if, a qualifying disposition occurs.

The non-employee Board members received compensation of 7,605 and 75,475 aggregate shares of common stock of the Company during the nine months ended September 30, 2021, and 2020, respectively. The stock had an aggregate value of \$22,475 and \$89,998 for the nine months ended September 30, 2021, and 2020, respectively, and was recorded as non-cash stock compensation expense in the financial statements.

Employees received compensation of 4,804 aggregate shares of common stock of the Company during the nine months ended September 30, 2021, which had an aggregate value of \$13,211, and was recorded as noncash stock-based compensation expense in the financial statements. In addition, during the nine months ended September 30, 2021, a total of 30,181 stock options were exercised by management.

**SCI ENGINEERED MATERIALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4. Common Stock and Stock Options (continued)**

The cumulative status of options granted and outstanding at September 30, 2021, and December 31, 2020, as well as options which became exercisable in connection with the Company's stock option plans is summarized as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at January 1, 2020	76,037	\$ 1.03
Outstanding at December 31, 2020	76,037	\$ 1.03
Exercised	(30,181)	0.96
Outstanding at September 30, 2021	45,856	\$ 1.07
Options exercisable at December 31, 2020	55,208	\$ 0.94
Options exercisable at September 30, 2021	31,970	\$ 0.99

Exercise prices for options ranged from \$0.84 to \$1.25 at September 30, 2021. The weighted average option price for all options outstanding at September 30, 2021, was \$1.07 with a weighted average remaining contractual life of 5.0 years.

**Note 5. Preferred Stock**

Dividends on the Series B preferred stock accrue at 10% annually on the outstanding shares. Dividends on the Series B preferred stock were \$6,038 for the three months ended September 30, 2021, and 2020, and \$18,114 for the nine months ended September 30, 2021, and 2020. The Company had accrued dividends on Series B preferred stock of \$259,634 at September 30, 2021, and \$265,672 at December 31, 2020. These amounts are included in Convertible preferred stock, Series B, on the balance sheet at September 30, 2021, and December 31, 2020. During June 2021, and June 2020, a dividend payment of \$24,152 was made to preferred shareholders.

**Note 6. Inventories**

Inventories consisted of the following:

	September 30, 2021 (unaudited)	December 31, 2020
Raw materials	\$ 522,058	\$ 206,668
Work-in-process	1,201,672	877,812
Finished goods	283,416	120,097
Inventory reserve	(25,118)	(24,218)
	<u>\$ 1,982,028</u>	<u>\$ 1,180,359</u>

**SCI ENGINEERED MATERIALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 7. Earnings Per Share**

Basic income per share is calculated as income applicable to common shareholders divided by the weighted average of common shares outstanding. Diluted earnings per share is calculated as diluted income applicable to common shareholders divided by the diluted weighted average number of common shares. Diluted weighted average number of common shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive. All convertible preferred stock and common stock options listed in Note 4 that were out-of-the-money or anti-dilutive were excluded from diluted earnings per share. The following is provided to reconcile the earnings per share calculations:

	Three months ended Sept. 30, 2021	Sept. 30, 2020	Nine months ended Sept. 30, 2021	Sept. 30, 2020
Income applicable to common shares	\$ 662,644	\$ 52,461	\$1,424,701	\$ 142,361
Weighted average common shares outstanding - basic	4,500,256	4,436,185	4,492,736	4,411,390
Effect of dilution	31,267	10,874	29,010	8,882
Weighted average shares outstanding - diluted	<u>4,531,523</u>	<u>4,447,059</u>	<u>4,521,746</u>	<u>4,420,272</u>

**Note 8. Notes Payable**

On April 17, 2020, the Company entered into an unsecured promissory note under the Paycheck Protection Program (the “PPP”), with a principal amount of \$325,300. The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and administered by the U.S. Small Business Administration (the “SBA”). The term of the PPP loan was two years. The interest rate on this loan was 1.0% per annum, which was deferred for the first six months of the term of the loan. After the initial six-month deferral period or until forgiveness of the loan was approved, the loan required monthly payments of principal and interest until maturity with respect to any portion of the PPP loan which was not forgiven. Under the terms of the CARES Act, PPP loan recipients are eligible to apply for, and be granted, forgiveness for all or a portion of loans granted under the PPP. Such forgiveness was subject to limitations and ongoing rulemaking by the SBA, based on the use of loan proceeds for payroll costs and mortgage interest, rent or utility costs and the maintenance of employee and compensation levels. The Company applied for forgiveness of the entire amount of the loan during the fourth quarter of 2020, and the SBA approved the Forgiveness Application in full during the first quarter of 2021. This amount is included in the Statement of Operations as gain on extinguishment of debt in the first quarter of 2021.

The Company had a line of credit with Huntington National Bank for \$1 million which was closed during the third quarter of 2021. It had an expiration date of October 5, 2021. No amounts were drawn on this line of credit during 2021.

The Company commenced a line of credit with Fifth Third Bank for \$1 million during August of 2021. The line of credit bears interest equal to the rate of interest per annum established by Fifth Third Bank as its Prime Rate. This line of credit has a maturity date of August 29, 2022. At September 30, 2021, no amounts were drawn on the line of credit.

**Note 9. Income Taxes**

The provision for income taxes for the three and nine months ended September 30, 2021, is based on our projected annual effective tax rate for fiscal year 2021, adjusted for permanent differences and specific items that are required to be recognized in the period in which they are incurred. The provision for income taxes was \$200,189 and \$0 for the three months ended September 30, 2021, and 2020 respectively, and \$338,282 and \$1,900 for the nine months ended September 30, 2021, and 2020 respectively.

The federal effective tax rate was 17.8% for the nine months ended September 30, 2021. The difference compared to the federal statutory rate of 21% was due primarily to a tax benefit of \$325,300 from the PPP loan forgiveness.

**SCI ENGINEERED MATERIALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 9. Income Taxes (continued)**

Following is the income tax expense for the three and nine months ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Federal - deferred	\$ 185,183	\$ —	\$ 316,185	\$ —
State and local	15,006	—	22,097	1,900
	<u>\$ 200,189</u>	<u>\$ —</u>	<u>\$ 338,282</u>	<u>\$ 1,900</u>

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. A valuation allowance of \$0 has been recorded against the realizability of the net deferred tax asset at September 30, 2021, and December 31, 2020. The Company had net operating loss carryforwards available for federal and state tax purposes of approximately \$3,700,000 at December 31, 2020, which expire in varying amounts through 2035.

As of December 31, 2020, management determined that there was sufficient positive evidence to conclude that it was more likely than not that deferred taxes of \$1,019,317 were realizable in part because the Company achieved four consecutive years of pretax income, expects profits to continue for the foreseeable future and implemented new efficiencies in the Company's manufacturing process. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. Accordingly, management determined that no valuation allowance was necessary, and the deferred tax asset was \$703,132 at September 30, 2021.

**Note 10. Operating Lease**

The Company entered into an operating lease with a third party on March 18, 2014, for its headquarters in Columbus, Ohio. The terms of the lease include monthly rental payments ranging from \$9,200 to \$9,700 with a maturity date of November 30, 2024. The Company has the option to extend the lease period for an additional five years beyond the original expiration date. There are no restrictions or covenants associated with the lease. The lease costs were approximately \$82,600 and \$80,900 during the nine months ended September 30, 2021, and 2020, respectively.

The following is a maturity analysis, by year, of the annual undiscounted cash outflows of the operating lease liabilities as of September 30, 2021:

2021	\$ 27,797
2022	112,611
2023	114,857
2024	102,550
Total minimum lease payments	357,815
Less debt discount	31,897
Total operating lease obligations	<u>\$ 325,918</u>
Operating cash outflows from operating leases	\$ 219,400
Weighted average remaining lease term – operating leases	3.2 years
Weighted average discount rate – operating leases	5.5 %

**SCI ENGINEERED MATERIALS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 11. Finance Leases**

The Company leases certain equipment under finance leases. Future minimum lease payments, by year, with the present value of such payments, as of September 30, 2021, are shown in the following table.

2021	\$ 39,624
2022	105,154
2023	101,675
2024	49,859
Total minimum lease payments	296,312
Less amount representing interest	16,393
Present value of minimum lease payments	279,919
Less current portion	108,832
Finance lease obligations, net of current portion	<u>\$ 171,087</u>

The equipment under finance lease at September 30, 2021, and December 31, 2020, is included in the accompanying balance sheets as follows:

	Sept. 30, 2021	Dec. 31, 2020
Machinery and equipment	\$ 745,289	\$ 745,289
Less accumulated depreciation and amortization	213,383	157,486
Net book value	<u>\$ 531,906</u>	<u>\$ 587,803</u>

These assets are amortized over a period of ten years using the straight-line method and amortization is included in depreciation expense.

The finance leases are structured such that ownership of the leased asset reverts to the Company at the end of the lease term. Accordingly, leased assets are depreciated using the Company's normal depreciation methods and lives. Ownership of certain assets were transferred to the Company in accordance with the terms of the leases and these assets have been excluded from the leased asset disclosure above.

During the first nine months of 2021 the Company was approved by Fifth Third Equipment Finance Company for an equipment line of credit not to exceed \$800,000 with an implicit rate of 2.71% at time of approval. Delivery and acceptance of new production equipment must be no later than December 31, 2021. Due to the improved cash position of the Company, management determined it was preferable to reinvest these funds directly into the purchase of the production equipment received during the first nine months of 2021, rather than initiate a new lease. The cost of this equipment was approximately \$341,655. In addition, a deposit of \$220,075 was made towards a purchase order of \$440,150 for new equipment expected to arrive by the end of 2021. Should the Company choose to initiate a finance lease for this equipment, the lease schedule is to commence upon acceptance of delivered equipment. The final lease rate factor or loan interest rate shall be fixed at funding using the Bloomberg SWAP Rate report for the most recent previous day close and shall remain constant throughout the term. At September 30, 2021, no amounts were drawn on the equipment line of credit.

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

The following discussion should be read in conjunction with the Financial Statements and Notes contained herein and with those in our Form 10-K for the year ended December 31, 2020.

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our intent, belief, and expectations, such as statements concerning our future profitability and operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "likely" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risks and uncertainties including, without limitation, the factors set forth under the caption "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2020, and other factors detailed from time to time in our other filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect our business and financial condition and could cause actual results to differ materially from plans and projections. Although we believe the assumptions underlying the forward-looking statements contained herein are reasonable, there can be no assurance that any of the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statements are made or reflect the occurrence of unanticipated events, unless necessary to prevent such statements from becoming misleading. New factors emerge from time to time, and it is not possible for us to predict all factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

### Executive Summary

In March 2020, the World Health Organization declared the coronavirus disease (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Since then, some federal, state, and local executive orders have been lifted and we continue to follow practical safety procedures. These procedures include, but are not limited to wearing masks, social distancing, staggering start times, and teleconferencing versus in person meetings. Almost all of our employees have been fully vaccinated. We recently resumed in person meetings with some customers and continue to maintain regular contact, via phone and other electronic means, with other customers and suppliers whom we are still unable to visit in person.

Based on recent conversations with customers, we do not expect to experience any material impairments or changes in accounting judgements related to COVID-19. Although we continue to face a period of uncertainty regarding the ongoing impact of the COVID-19 pandemic and emergence of new variants on projected customer demand, market conditions continue to gradually improve. In the midst of this challenging environment, we remain focused on taking the necessary steps to respond quickly to changes in our business through specific contingency plans including (but not limited to): reviewing and monitoring planned capital expenditures, reviewing all operating expenses for opportunities to reduce and/or defer spending, and aligning inventory to planned shipments and estimated revenue.

We continue to monitor the evolving situation related to COVID-19 including guidance from federal, state, and local public health authorities and may take additional actions based on these recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, given the dynamic nature of this situation, we cannot reasonably estimate the impacts of COVID-19 or the emergence of new variants on our results of operations, cash flows and liquidity in the future.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Two additional issues are affecting national and global market conditions. First, supply chain disruptions have become more frequent in recent months for the Company and some of its customers. Thus far, we have not experienced material adverse effects regarding product shipments; however, timely sourcing of certain materials is of increased concern. Second, published articles and corporate announcements continue to address the global semiconductor chip shortage, which is anticipated to continue into 2022. It is affecting some of our customers which could impact the Company's revenue, volume, and profitability. We continue to actively monitor these developments, including ongoing contact with our suppliers and customers, and adapting to their specific circumstances and forecasts.

On April 17, 2020, we entered into an unsecured promissory note under the Paycheck Protection Program (the "PPP"), with a principal amount of \$325,300. The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and administered by the U.S. Small Business Administration (the "SBA"). The SBA approved our Forgiveness Application in full on January 6, 2021.

The Employee Retention Credit, as originally enacted on March 27, 2020, by the CARES Act, is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. The Taxpayer Certainty and Disaster Tax Relief Act (the "Relief Act"), enacted on December 27, 2020, amended, and extended the ERC. On March 1, 2021, the IRS released Notice 2021-20 to provide guidance on the original ERC, as modified by the Relief Act. During 2021 we filed Form 941-X to claim a credit of \$105,000 on qualified wages paid in 2020. This receivable appears on the balance sheet as of September 30, 2021, as Tax Receivable, and as a credit to wages in the Statement of Operations during the nine months ended September 30, 2021.

The Relief Act extended and enhanced the Employee Retention Credit for qualified wages paid after December 31, 2020, through June 30, 2021. Under the Relief Act, eligible employers may claim a refundable tax credit against certain employment taxes equal to 70% of the qualified wages an eligible employer pays to employees after December 31, 2020, through June 30, 2021. As of the March 11, 2021 passage of the American Rescue Plan Act, the ERC is available for all four quarters of 2021.

During the first quarter of 2021, we experienced a decline in gross receipts of 25% compared to the first quarter of 2019. This decline, along with continued underutilization of certain manufacturing equipment, reduction in employee's workloads, travel restrictions and supply chain issues, qualified us to receive this credit. We filed Form 941 for the first quarter of 2021 and claimed a credit of \$150,507 on qualified wages paid in the first quarter of 2021. These funds were received during the second quarter of 2021 and appear as a credit to wages in the Statement of Operations during the nine months ended September 30, 2021. An employer that has a decline continues to be eligible until the end of the calendar quarter in which gross receipts are greater than 80% of its 2019 calendar quarter receipts. Thus, we were eligible for this credit for the second quarter of 2021 in the amount of \$151,701, which appears as a credit to wages in the Statement of Operations for the nine months ended September 30, 2021.

During the second quarter of 2021, we experienced a decline in gross receipts of 30% compared to the second quarter of 2019. This decline, along with continued underutilization of certain manufacturing equipment, reduction in employee's workloads, travel restrictions and supply chain issues, qualified us to receive this credit for the third quarter of 2021. As previously mentioned, an employer that has a decline in gross receipts continues to be eligible until the end of the calendar quarter in which gross receipts are greater than 80% of its 2019 calendar quarter receipts. Thus, we were eligible for this credit for the third quarter of 2021 in the amount of \$153,713, which appears as a credit to wages in the Statement of Operations for the three and nine months ended September 30, 2021. \$73,852 was applied as a credit to payroll taxes throughout the third quarter and the remainder appears on the balance sheet as Tax Receivable as of September 30, 2021.

In addition, the American Rescue Plan Act of 2021 allows eligible employers with fewer than 500 employees to qualify for a tax credit for providing paid time off for each employee receiving COVID-19 vaccinations and for any time needed to recover from the vaccine. The Company received a credit of \$11,042 and this amount appears as a credit to wages in the Statement of Operations for the three and nine months ended September 30, 2021.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

For the three months ended September 30, 2021, we had record total revenue of \$5,211,169. This was an increase of \$3,717,091 or 248.8%, compared to the three months ended September 30, 2020. For the nine months ended September 30, 2021, we had total revenue of \$10,205,528. This was an increase of \$2,666,068, or 35.4%, compared to the nine months ended September 30, 2020. The increase was principally due to higher raw material pricing for the 2021 third quarter, in addition to increased volume and improved product mix throughout the first nine months of 2021 compared to a year ago.

Gross profit was a record \$1,302,368 for the three months ended September 30, 2021, compared to \$459,139 for the same three months in 2020 and \$2,667,958 and \$1,406,261 for the nine months ended September 30, 2021, and 2020, respectively. These increases were due to volume, product mix, and improved manufacturing efficiency. In addition, \$90,082 and \$328,356 was related to the ERC and ARP credits for the three and nine months ended September 30, 2021, respectively.

Operating expenses were \$425,341 and \$391,582 for the three months ended September 30, 2021, and 2020, respectively and \$1,187,353 and \$1,223,459 for the nine months ended September 30, 2021, and 2020, respectively.

Income from operations was \$877,027 and \$67,557 for the three months ended September 30, 2021, and 2020, respectively, which included \$164,755 related to the ERC and ARP credits during the third quarter of 2021. Income from operations was \$1,480,605 and \$182,802 for the nine months ended September 30, 2021, and 2020, respectively, which included \$571,962 related to the ERC and ARP credits during the first nine months of 2021.

Consistent with our growth strategy, we have identified niche markets that can benefit from our expertise in custom powder solutions, such as near-infrared doped phosphors and short-wave infrared applications. These applications enable extended life of phosphors for specific nighttime identification needs of defense personnel and first responders.

New initiatives are also being pursued that utilize our vacuum hot press, cold isostatic press, and kilns for development projects, including diffusion bonding. We recently manufactured and sold conductive metal oxides for direct current sputtering of Tungsten Oxide and Molybdenum Oxide materials. We continue to invest in developing new products for all our markets including transparent conductive oxide systems for the solar and display markets as well as with our transparent electronic products. Those products involve research and development expense to accelerate time to market.

### RESULTS OF OPERATIONS

#### Three and nine months ended September 30, 2021 (unaudited) compared to three and nine months ended September 30, 2020 (unaudited):

##### *Revenue*

For the three months ended September 30, 2021, we had total record revenue of \$5,211,169. This was an increase of \$3,717,091 or 248.8%, compared to the three months ended September 30, 2020. For the nine months ended September 30, 2021, we had total revenue of \$10,205,528. This was an increase of \$2,666,068 or 35.4%, compared to the nine months ended September 30, 2020. The increase was principally due to higher raw material pricing in the 2021 third quarter, in addition to increased volume and improved product mix throughout the first nine months of 2021. During 2020, total revenue was adversely impacted by lower volume, pricing, and COVID-19 related issues. We anticipate revenue for the fourth quarter of 2021 to be below the 2021 third quarter amount, primarily due to lower raw material pricing. Volume is expected to remain stable during the 2021 fourth quarter compared to the third quarter of 2021.

##### *Gross profit*

Gross profit was a record \$1,302,368 for the three months ended September 30, 2021, compared to \$459,139 for the same three months in 2020. This was an increase of \$843,229 or 183.7%. Gross profit as a percentage of revenue (gross margin) was 25.0% for the third quarter of 2021 compared to 30.7% for the same period in 2020. Gross profit was \$2,667,958 for the nine months ended September 30, 2021, compared to \$1,406,261 for the first nine months of 2020. This was an increase of \$1,261,697 or 89.7%. Gross margin was 26.1% for the first nine months of 2021 compared to 18.7% for the same period in 2020. These increases were due to volume, product mix, and improved manufacturing efficiency. In addition, \$90,082 and \$328,356 was related to the ERC and ARP credits for the three and nine months ended September 30, 2021, respectively.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### *General and administrative expense*

General and administrative expense for the three months ended September 30, 2021, and 2020, was \$306,997 and \$263,444, respectively, an increase of 16.5%. General and administrative expense for the nine months ended September 30, 2021, and 2020, was \$878,586 and \$818,825, respectively, an increase of 7.3%. Increase in compensation, including year-end accruals, was partially offset by the ERC and ARP credits of \$22,354 during the third quarter of 2021 and \$79,354 for the nine months ended September 30, 2021.

### *Professional fees*

Included in total expense was \$44,385 and \$39,694 for professional fees for the three months ended September 30, 2021, and 2020, respectively and \$169,143 and \$159,831 for the nine months ended September 30, 2021, and 2020, respectively. These expenses were primarily related to SEC compliance costs for legal, accounting and stockholder relations fees.

### *Research and development expense*

Research and development expense for the three months ended September 30, 2021, was \$56,612 compared to \$83,276 for the same period in 2020, a decrease of 32.0%. Research and development expense for the nine months ended September 30, 2021, was \$149,208 compared to \$260,601 for the same period in 2020, a decrease of 42.7%. This decrease was primarily related to the ERC and ARP credits of \$29,224 during the third quarter of 2021 and \$90,974 during the first nine months of 2021. Specialty materials are being researched for use in niche markets which include custom applications and additive manufacturing. Our development efforts utilize a disciplined innovation approach focused on accelerating time to market for these applications and involve ongoing research and development expense.

### *Marketing and sales expense*

Marketing and sales expense was \$61,732 and \$44,862 for the three months ended September 30, 2021, and 2020, respectively. This was an increase of \$16,870 or 37.6%. Compensation expense related to an increase in staff in 2021 was offset by the ERC and ARP credits of \$23,095. Travel expenses were up slightly as we were able to attend one tradeshow, but some tradeshow have been cancelled or moved to virtual, including some scheduled for the fourth quarter of 2021. We continue to maintain regular contact, via phone and other electronic means, with other customers and suppliers whom we are still unable to visit in person due to the ongoing COVID-19 pandemic.

Marketing and sales expense was \$159,559 and \$144,033 for the nine months ended September 30, 2021, and 2020, respectively. This was an increase of 10.8%. Higher outside consulting expense and compensation expense related to an increase in staff in 2021 were partially offset by the ERC and ARP credits of \$73,278.

### *Stock compensation expense*

Included in total expenses were non-cash stock-based compensation costs of \$8,670 and \$31,182 for the three months ended September 30, 2021, and 2020, respectively, and \$39,233 and \$93,544 for the nine months ended September 30, 2021, and 2020, respectively. Compensation expense for all stock-based awards is based on the grant date fair value and recognized over the required service (vesting) period. Unrecognized non-cash stock-based compensation expense was \$7,487 as of September 30, 2021, and will be recognized through 2023.

### *Interest*

Interest expense was \$8,156 and \$9,058 for the three months ended September 30, 2021, and 2020, respectively. Interest expense was \$24,808 and \$20,427 for the nine months ended September 30, 2021, and 2020, respectively. Lower interest income during 2021 resulted in an increase to overall interest expense.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### *Income taxes*

Income tax expense was \$200,189 and \$0 for the three months ended September 30, 2021, and 2020, respectively, and \$338,282 and \$1,900 for the nine months ended September 30, 2021, and 2020, respectively. In December 2020, we reversed in full our valuation allowance that had been recorded against the unrealizability of the deferred tax asset, which resulted in the recording of the asset of \$1,019,317 at December 31, 2020. Management considered new evidence, both positive and negative, during the first nine months of 2021 that could affect its view of the future realization of deferred tax assets and determined that no valuation allowance was necessary at September 30, 2021, and the deferred tax asset was \$703,132 at September 30, 2021.

### *Income applicable to common shares*

Income applicable to common shares for the three months ended September 30, 2021, and 2020, was \$662,644 and \$52,461, respectively. Income applicable to common shares for the nine months ended September 30, 2021, and 2020 was \$1,424,701 and \$142,361, respectively. These increases were primarily the result of higher revenue, improved gross profit, and the Employee Retention Credit for the three and nine months ended September 30, 2021, as well as forgiveness of the PPP Loan in the first quarter of this year.

## **Liquidity and Capital Resources**

### *Cash*

As of September 30, 2021, cash on hand was \$3,953,385 compared to \$2,917,551 at December 31, 2020, an increase of 35.5%.

### *Working capital*

At September 30, 2021, working capital was \$4,152,431 compared to \$2,810,629 at December 31, 2020, an increase of \$1,341,802, or 47.7%, primarily due to the increase in cash of \$1,035,834.

### *Cash from operations*

Net cash provided by operating activities during the nine months ended September 30, 2021, was \$1,780,698 and \$504,561 for the nine months ended September 30, 2020. This included depreciation and amortization of \$329,104 and \$338,616 and non-cash stock-based compensation costs of \$39,233 and \$93,544 for the nine months ended September 30, 2021, and 2020, respectively. In addition, due to orders received throughout 2021, accrued expenses and customer deposits increased \$887,869, inventory increased \$801,669, accounts receivable increased \$298,706 and accounts payable increased \$165,371.

### *Cash from investing activities*

Cash of \$615,088 and \$49,023 was used in investing activities during the nine months ended September 30, 2021, and 2020, respectively, for the acquisition of production equipment.

### *Cash from financing activities*

Cash of \$123,715 and \$84,238 was used in financing activities for principal payments to third parties for finance lease obligations during the nine months ended September 30, 2021, and 2020, respectively. The increase is due to the commencement of a finance lease during the third quarter of 2020 for the rebuild of production equipment. Also, a dividend payment of \$24,152 was made to owners of our Series B preferred stock during the second quarter of 2021 and 2020.

### *Debt outstanding*

Total debt outstanding decreased to \$279,919 at September 30, 2021, from \$728,934 at December 31, 2020, a decrease of 61.6%. As previously mentioned, cash of \$123,715 was used for principal payments for finance lease obligations and our PPP loan of \$325,300 was forgiven in full by the SBA.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (continued)**

### **Off Balance Sheet Arrangements**

We have no off-balance sheet arrangements including special purpose entities.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in the Financial Statements and accompanying notes. Note 2 to the Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020, describes the significant accounting policies and methods used in the preparation of the Financial Statements. Estimates are used for, but not limited to, accounting for the allowance for doubtful accounts, inventory allowances, property and equipment depreciable lives, patents and licenses useful lives, revenue recognition, tax valuation allowance, stock-based compensation and assessing changes in which impairment of certain long-lived assets may occur. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Financial Statements. The allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer’s credit worthiness or actual defaults are higher than our historical experience, our estimates of the recoverability of amounts due us could be adversely affected. Inventory purchases and commitments are based upon future demand forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, we may be required to increase our inventory allowances and our gross margin could be adversely affected. Depreciable and useful lives estimated for property and equipment, licenses and patents are based on initial expectations of the period of time these assets and intangibles will benefit us. Changes in circumstances related to a change in our business, change in technology or other factors could result in these assets becoming impaired, which could adversely affect the value of these assets.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and implemented, can only provide reasonable assurance of achieving the desired control objectives. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, to allow timely discussions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the SEC under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

### **Inherent Limitations over Internal Controls**

Our internal control over financial reporting is designed 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. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

**Item 4. Controls and Procedures (continued)**

Management is responsible for the consistency, integrity, and presentation of information. We fulfill our responsibility by maintaining systems of internal control designed to provide reasonable assurance that assets are safeguarded, and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon recognition that the cost of the controls should not exceed the benefit derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to our systems of internal control primarily through its Audit Committee, which is comprised of independent directors. The Committee oversees our financial reporting, quarterly reviews, and audits to assess whether their quality, integrity, and objectivity are sufficient to protect shareholders' investments.

**Changes in Internal Controls over Financial Reporting**

There were no changes in our internal controls over financial reporting for the three months ended September 30, 2021, that materially affected or were reasonably likely to materially affect our disclosure controls and procedures. Additionally, there were no changes in our internal controls that could materially affect our disclosure controls and procedures subsequent to the date of their evaluation.

## Item 6. Exhibits

- 3(a) [Certificate of Second Amended and Restated Articles of Incorporation of Superconductive Components, Inc. \(Incorporated by reference to Exhibit 3\(a\) to the Company's initial Form 10-SB, filed on September 28, 2000\)](#)
- 3(b) [Restated Code of Regulations of Superconductive Components, Inc. \(Incorporated by reference to Exhibit 3\(b\) to the Company's initial Form 10-SB, filed on September 28, 2000\)](#)
- 3(c) [Amendment to Articles of Incorporation recording the change of the corporate name to SCI Engineered Materials, Inc. \(Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB filed November 7, 2007\).](#)
- 4(a) [SCI Engineered Materials, Inc. 2011 Stock Incentive Plan \(Incorporated by reference to the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders held on June 10, 2011, filed April 28, 2011\).](#)
- 4(b) [Superconductive Components, Inc. 2006 Stock Incentive Plan \(Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders held on June 9, 2006, filed May 1, 2006\).](#)
- 10(c) [Description of Unsecured Promissory Note administered by the U.S. Small Business Administration for funds received April 24, 2020 \(Incorporated by reference to the Company's Current Report on Form 8-K, dated April 29, 2020\).](#)
- 14(a) SCI Engineered Materials Code of Ethics for the Chief Executive Officer and Chief Financial Officer (Incorporated by reference to the Company's Current Report via the Company's website at [www.sciengineeredmaterials.com](http://www.sciengineeredmaterials.com))
- 31.1 \* [Rule 13a-14\(a\) Certification of Principal Executive Officer.](#)
- 31.2 \* [Rule 13a-14\(a\) Certification of Principal Financial Officer.](#)
- 32.1 \* [Section 1350 Certification of Principal Executive Officer.](#)
- 32.2 \* [Section 1350 Certification of Principal Financial Officer.](#)
- 99.1 Press Release dated October 27, 2021, entitled "SCI Engineered Materials, Inc., Reports 2021 Third Quarter and Year-to-Date Results."
- 101 The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2021 and December 31, 2020 (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2021 and 2020, (iii) Consolidated Statement of Changes in Equity for the three and nine months ended September 30, 2021 and 2020, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020, and (v) Notes to Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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\* Filed herewith

## Signatures

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

Date: October 27, 2021

### SCI ENGINEERED MATERIALS, INC.

/s/ Jeremiah R. Young

Jeremiah R. Young, President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Gerald S. Blaskie

Gerald S. Blaskie, Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeremiah R. Young, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
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. The registrant's other certifying officer(s) and I are 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 disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 our 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control 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 control 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 control over financial reporting.

Date: October 27, 2021

/s/ Jeremiah R. Young

Jeremiah R. Young  
President and Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gerald S. Blaskie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
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. The registrant's other certifying officer(s) and I are 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 disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 our 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control 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 control 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 control over financial reporting.

Date: October 27, 2021

/s/ Gerald S. Blaskie

Gerald S. Blaskie

Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeremiah R. Young, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Jeremiah R. Young

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Jeremiah R. Young  
President and Chief Executive Officer of  
SCI Engineered Materials, Inc.  
(Principal Executive Officer)  
October 27, 2021

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gerald S. Blaskie, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Gerald S. Blaskie

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Gerald S. Blaskie

Vice President and Chief Financial Officer of  
SCI Engineered Materials, Inc. (Principal Financial  
Officer and Principal Accounting Officer)

October 27, 2021

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