

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 June 30, 2022

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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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

4,515,379 shares of Common Stock, without par value, were outstanding at July 28, 2022.

FORM 10-Q  
SCI ENGINEERED MATERIALS, INC.

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

**BALANCE SHEETS**

**ASSETS**

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	<u>(UNAUDITED)</u>	
<b>Current Assets</b>		
Cash	\$ 5,409,210	\$ 4,140,942
Accounts receivable		
Trade, less allowance for doubtful accounts of \$15,000	714,269	425,327
Tax - Employee Retention Credit	105,000	105,000
Other	—	1,250
Inventories, net	3,617,648	1,073,218
Prepaid expenses	46,052	678,357
<b>Total current assets</b>	<u>9,892,179</u>	<u>6,424,094</u>
<b>Property and Equipment, at cost</b>		
Machinery and equipment	8,066,539	7,949,746
Furniture and fixtures	135,665	132,365
Leasehold improvements	596,867	596,867
Construction in progress	330,972	287,510
	<u>9,130,043</u>	<u>8,966,488</u>
Less accumulated depreciation	<u>(6,994,759)</u>	<u>(6,809,850)</u>
	<u>2,135,284</u>	<u>2,156,638</u>
Right of use asset, net	230,457	274,298
Deferred tax asset	531,720	663,820
Other assets	87,346	89,552
<b>Total other assets</b>	<u>849,523</u>	<u>1,027,670</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,876,986</u>	<u>\$ 9,608,402</u>

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

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2022 (UNAUDITED)	December 31, 2021
<b>Current Liabilities</b>		
Finance lease obligations, current portion	\$ 98,828	\$ 96,702
Operating lease obligations, current portion	101,525	97,292
Accounts payable	430,808	250,383
Customer deposits	3,862,439	1,724,556
Accrued compensation	198,471	225,190
Accrued expenses and other	114,147	122,836
Total current liabilities	<u>4,806,218</u>	<u>2,516,959</u>
Finance lease obligations, net of current portion	96,564	146,516
Operating lease obligations, net of current portion	153,654	205,623
Total liabilities	<u>5,056,436</u>	<u>2,869,098</u>
<b>Shareholders' Equity</b>		
Common stock, no par value, authorized 15,000,000 shares; 4,515,379 and 4,506,269 shares issued and outstanding, respectively	10,603,450	10,573,843
Additional paid-in capital	2,229,443	2,227,078
Accumulated deficit	<u>(5,012,343)</u>	<u>(6,061,617)</u>
	<u>7,820,550</u>	<u>6,739,304</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 12,876,986</u>	<u>\$ 9,608,402</u>

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

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF INCOME

THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2022	2021	2022	2021
Revenue	\$ 6,505,005	\$ 1,972,049	\$ 11,831,437	\$ 4,994,359
Cost of revenue	5,127,337	1,409,495	9,459,668	3,628,769
Gross profit	1,377,668	562,554	2,371,769	1,365,590
General and administrative expense	423,401	283,708	796,589	571,589
Research and development expense	92,085	54,377	179,116	92,596
Marketing and sales expense	108,140	46,434	190,328	97,827
Income from operations	754,042	178,035	1,205,736	603,578
Gain on extinguishment of debt	—	—	—	(325,300)
Interest expense	5,769	9,014	12,262	16,652
Income before provision for income taxes	748,273	169,021	1,193,474	912,226
Provision for income taxes	83,400	47,473	144,200	138,093
Net income	664,873	121,548	1,049,274	774,133
Dividends on preferred stock	—	6,038	—	12,076
<b>INCOME APPLICABLE TO COMMON STOCK</b>	<u>\$ 664,873</u>	<u>\$ 115,510</u>	<u>\$ 1,049,274</u>	<u>\$ 762,057</u>
Earnings per share - basic and diluted (Note 7)				
Income per common share				
Basic	\$ 0.15	\$ 0.03	\$ 0.23	\$ 0.17
Diluted	\$ 0.15	\$ 0.03	\$ 0.23	\$ 0.17
Weighted average shares outstanding				
Basic	4,514,492	4,497,903	4,512,396	4,488,913
Diluted	4,541,819	4,526,062	4,539,988	4,516,478

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

**SCI ENGINEERED MATERIALS, INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(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	6,038	—	(6,038)	—	—
Stock based compensation expense (Note 4)	—	—	1,183	—	1,183
Common stock issued (Note 4)	—	20,705	—	—	20,705
Net income	—	—	—	652,585	652,585
<b>Balance 3/31/2021</b>	<u>\$ 520,476</u>	<u>\$ 10,551,374</u>	<u>\$ 2,241,646</u>	<u>\$ (7,087,856)</u>	<u>\$ 6,225,640</u>
Accretion of cumulative dividends	6,038	—	(6,038)	—	—
Payment of cumulative dividends (Note 5)	(24,152)	—	—	—	(24,152)
Stock based compensation expense (Note 4)	—	—	1,182	—	1,182
Common stock issued (Note 4)	—	7,493	—	—	7,493
Net income	—	—	—	121,548	121,548
<b>Balance 6/30/2021</b>	<u>\$ 502,362</u>	<u>\$ 10,558,867</u>	<u>\$ 2,236,790</u>	<u>\$ (6,966,308)</u>	<u>\$ 6,331,711</u>
<b>Balance 12/31/2021</b>	\$ —	\$ 10,573,843	\$ 2,227,078	\$ (6,061,617)	\$ 6,739,304
Stock based compensation expense (Note 4)	—	—	1,183	—	1,183
Common stock issued (Note 4)	—	22,116	—	—	22,116
Net income	—	—	—	384,401	384,401
<b>Balance 3/31/2022</b>	\$ —	\$ 10,595,959	\$ 2,228,261	\$ (5,677,216)	\$ 7,147,004
Stock based compensation expense (Note 4)	—	—	1,182	—	1,182
Common stock issued (Note 4)	—	7,491	—	—	7,491
Net income	—	—	—	664,873	664,873
<b>Balance 6/30/2022</b>	<u>\$ —</u>	<u>\$ 10,603,450</u>	<u>\$ 2,229,443</u>	<u>\$ (5,012,343)</u>	<u>\$ 7,820,550</u>

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

**SCI ENGINEERED MATERIALS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(UNAUDITED)**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,049,274	\$ 774,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and accretion	203,944	230,689
Amortization of right of use asset	43,841	40,792
Amortization of patents	2,207	2,207
Stock based compensation	31,972	30,563
(Gain) loss on disposal of equipment	(5,166)	3,224
Deferred tax asset	132,100	131,002
Gain on extinguishment of debt	—	(325,300)
Inventory reserve	(16,855)	600
Changes in operating assets and liabilities:		
Accounts receivable	(287,692)	(144,555)
Inventories	(2,527,575)	(3,066,009)
Prepaid expenses	632,305	(151,276)
Other assets	(2)	2,656
Accounts payable	180,425	286,866
Operating lease obligations	(47,736)	(43,565)
Accrued expenses and customer deposits	2,099,024	3,477,435
Net cash provided by operating activities	<u>1,490,066</u>	<u>1,249,462</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds on sale of equipment	5,166	591
Purchases of property and equipment	(179,140)	(558,828)
Net cash used in investing activities	<u>(173,974)</u>	<u>(558,237)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of cumulative dividends on preferred stock	—	(24,152)
Principal payments on finance lease obligations and notes payable	(47,824)	(87,422)
Net cash used in financing activities	<u>(47,824)</u>	<u>(111,574)</u>
<b>NET INCREASE IN CASH</b>	<b>1,268,268</b>	<b>579,651</b>
<b>CASH - Beginning of period</b>	<b>4,140,942</b>	<b>2,917,551</b>
<b>CASH - End of period</b>	<b>\$ 5,409,210</b>	<b>\$ 3,497,202</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest	\$ 4,826	\$ 5,895
Income taxes	10,863	2,778
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Increase in asset retirement obligation	3,450	3,450

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 photonics industry including Aerospace, Automotive, Defense, Glass, Optical Coatings and Solar. 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 of 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, 2021. 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 the majority of 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 30 day payment terms. 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.

All revenue was from the photonics industry during the six months ended June 30, 2022 and 2021. The top two customers represented approximately 87% and 79% of total revenue for the six months ended June 30, 2022 and 2021, respectively. International shipments resulted in 1% and 3% of total revenue for the first six months of 2022 and 2021, respectively.



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

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

Employee Retention Credit (ERC) - The Company qualified for federal government assistance through Employee Retention Credit provisions of the Consolidated Appropriations Act of 2021 during the first six months of 2021 in the amount of \$255,507 during the first quarter of 2021 and \$151,701 during the second quarter of 2021. The purpose of the Employee Retention Credit was to encourage employers to keep employees on the payroll, even if they were not working during the covered period because of the coronavirus outbreak. These funds were recorded in the Statements of Income as an offset to payroll costs in their respective expense lines and as a tax receivable on the balance sheets. The Company also qualified for the ERC in the third quarter of 2021. A balance of \$105,000 appears as a tax receivable on the balance sheets at June 30, 2022.

**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 us in the first quarter of 2023. We are evaluating the impact that the adoption of this update will have on our 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. Noncash stock-based compensation expense was \$8,673 and \$8,675 for the three months ended June 30, 2022, and 2021, respectively. Noncash stock-based compensation expense was \$31,972 and \$30,563 for the six months ended June 30, 2022, and 2021, respectively.

Unrecognized compensation expense was \$3,941 as of June 30, 2022 and will be recognized through 2023. There was no tax benefit recorded for this compensation cost as the expense 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 4,610 and 5,265 aggregate shares of common stock of the Company during the six months ended June 30, 2022 and 2021, respectively. The stock had an aggregate value of \$14,982 and \$14,987 for the six months ended June 30, 2022 and 2021, respectively, and was recorded as non-cash stock compensation expense in the financial statements.

Employees received compensation of 4,500 and 4,804 aggregate shares of common stock of the Company during the six months ended June 30, 2022 and 2021, respectfully. These shares had an aggregate value of \$14,625 and \$13,211 and was recorded as non-cash stock compensation expense in the financial statements for the six months ended June 30, 2022 and 2021, respectively. In addition, during the six months ended June 30, 2021, a total of 30,181 stock options were exercised by management.

The cumulative status of options granted and outstanding at June 30, 2022, and December 31, 2021, as well as options which became exercisable in connection with the Company’s stock option plans is summarized as follows:

**Employee Stock Options**

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2021	76,037	\$ 1.03
Exercised	(34,733)	1.00
Outstanding at December 31, 2021	41,304	\$ 1.05
Outstanding at June 30, 2022	41,304	\$ 1.05
Options exercisable at December 31, 2021	27,418	\$ 0.95
Options exercisable at June 30, 2022	34,361	\$ 1.01

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

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

Exercise prices for options ranged from \$0.84 to \$1.25 at June 30, 2022. The weighted average option price for all options outstanding at June 30, 2022, was \$1.05 with a weighted average remaining contractual life of 4.1 years. There were no non-employee director stock options outstanding during 2022 and 2021.

**Note 5. Preferred Stock**

The Board of Directors voted in November 2021 to authorize full redemption of the 24,152 shares of the Company's Convertible Preferred Stock, Series B ("Series B") outstanding effective December 31, 2021. This involved cash payments of \$248,766 (\$10.30 per Series B share, which includes a 3% premium to the stated value of \$10 per share), plus unpaid annual dividends of \$265,672 (\$11.00 per Series B share).

Dividends on the Convertible Preferred Stock, Series B accrued at 10% annually on the outstanding shares prior to the redemption in 2021 and were \$6,038 and \$12,076 for the three and six months ended June 30, 2021, respectively. During June 2021, a cash dividend payment of \$24,152 was made to preferred shareholders.

**Note 6. Inventories**

Inventories consisted of the following:

	June 30, 2022 (unaudited)	December 31, 2021
Raw materials	\$ 1,759,561	\$ 440,759
Work-in-process	1,700,549	549,369
Finished goods	166,101	108,508
Inventory reserve	(8,563)	(25,418)
	<u>\$ 3,617,648</u>	<u>\$ 1,073,218</u>

**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 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Income applicable to common shares	\$ 664,873	\$ 115,510	\$ 1,049,274	\$ 762,057
Weighted average common shares outstanding - basic	4,514,492	4,497,903	4,512,396	4,488,913
Effect of dilution	27,327	28,159	27,592	27,565
Weighted average shares outstanding - diluted	<u>4,541,819</u>	<u>4,526,062</u>	<u>4,539,988</u>	<u>4,516,478</u>

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

**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. Under the terms of the CARES Act, PPP loan recipients were eligible to apply for, and be granted, forgiveness for all or a portion of loans granted. 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 Statements of Income as gain on extinguishment of debt for the six months ended June 30, 2021.

The Company commenced a line of credit with Fifth Third Bank for \$1 million during 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. No amounts were drawn on this line of credit as of June 30, 2022.

**Note 9. Income Taxes**

The provision for income taxes for the six months ended June 30, 2022 is based on our projected annual effective tax rate for fiscal year 2022, adjusted for permanent differences and specific items that are required to be recognized in the period in which they are incurred.

Following is the income tax expense for the three and six months ended June 30:

	Three months ended June 30.		Six months ended June 30.	
	2022	2021	2022	2021
Federal - deferred	\$ 76,100	\$ 43,160	\$ 132,100	\$ 131,002
State and local	7,300	4,313	12,100	7,091
	<u>\$ 83,400</u>	<u>\$ 47,473</u>	<u>\$ 144,200</u>	<u>\$ 138,093</u>

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. The Company had net operating loss carryforwards available for federal and state tax purposes of approximately \$2,100,000 at December 31, 2021, which expire in varying amounts through 2041.

As of December 31, 2021, management determined that there was sufficient positive evidence to conclude that it is more likely than not that deferred taxes of \$663,820 were realizable principally because we achieved five consecutive years of pretax income, expect 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 \$531,720 at June 30, 2022.

**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 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 \$56,200 and \$55,000 during the six months ended June 30, 2022 and 2021, respectively.

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

**Note 10. Operating Lease (continued)**

The following is a maturity analysis, by year, of the annual undiscounted cash outflows of the operating lease liabilities as of June 30, 2022:

2022	\$ 56,443
2023	114,857
2024	102,550
Total minimum lease payments	<u>273,850</u>
Less debt discount	<u>18,671</u>
Total operating lease obligations	<u>\$ 255,179</u>
Operating cash outflows from operating leases	\$ 47,736
Weighted average remaining lease term	2.4 years
Weighted average discount rate	5.5 %

**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 June 30, 2022, are shown in the following table.

2022	\$ 52,650
2023	101,675
2024	49,859
Total minimum lease payments	<u>204,184</u>
Less amount representing interest	<u>8,792</u>
Present value of minimum lease payments	195,392
Less current portion	<u>98,828</u>
Finance lease obligations, net of current portion	<u>\$ 96,564</u>

The equipment under finance lease at June 30, 2022, and December 31, 2021, is included in the accompanying balance sheets as follows:

	<u>June 30, 2022</u>	<u>Dec. 31, 2021</u>
Machinery and equipment	\$ 385,923	\$ 385,923
Less accumulated depreciation and amortization	85,080	65,783
Net book value	<u>\$ 300,843</u>	<u>\$ 320,140</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.

**Note 12. Subsequent Event**

The Company expects to receive shipment of additional manufacturing equipment during the third quarter of 2022. This includes a hot press that will enable production of higher temperature materials with increased capacity. A final cash payment of \$220,075 was made for the hot press during late July of this year.

## 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, 2021.

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, 2021, 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

For the six months ended June 30, 2022, we had record total revenue of \$11,831,437. Higher pricing, primarily attributable to increased raw material costs, higher volume and product mix were key factors that contributed to the increase.

Gross profit was \$2,371,769 for the six months ended June 30, 2022 compared to \$1,365,590 for the same six months in 2021. The increase was due to higher volume, favorable product mix, and improved manufacturing efficiency. The first half of 2021 included a reduction of expenses of approximately \$238,000 related to the Employee Retention Credit ("ERC") enacted in 2020.

Operating expenses were \$1,166,033 and \$762,012 for the six months ended June 30, 2022 and 2021, respectively. The first six months of 2021 included a reduction of expenses of approximately \$169,000 related to the ERC.

Income from operations was \$1,205,736 and \$603,578 for the six months ended June 30, 2022 and 2021, respectively.

We expect to receive shipment of additional manufacturing equipment during the third quarter of 2022. This includes a hot press that will enable production of higher temperature materials with increased capacity. A final cash payment of \$220,075 was made for the hot press during late July of this year.

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, most federal, state, and local executive orders have been lifted. Based on ongoing conversations with customers, we do not expect to experience any material impairments or changes in accounting judgements related to COVID-19. We continue to follow practical safety procedures as needed. During the first half of 2022, we resumed in-person meetings, participated onsite in industry trade shows, and continue to maintain regular contact, via phone and other electronic means, with all customers and suppliers.

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

Several issues continue to affect national and global market conditions. First, inflation has accelerated, impacting raw material costs and transportation expenses. We have generally been able to pass on these increases to customers but are unable to predict how future or sustained inflationary pressure may impact our results. Second, supply chain disruptions are adversely impacting customers in certain markets. Thus far, we have not experienced material adverse effects regarding product shipments; however, timely deliveries and sourcing of certain materials is of increased concern. Third, published articles and corporate announcements continue to address the global semiconductor chip shortage, which is anticipated to continue at least into the fourth quarter of 2022. This shortage is affecting some of our customers which could impact the Company's revenue, volume, and profitability. Fourth, there are increased political uncertainties affecting global markets. Although we currently have no customers or vendors in Russia or Ukraine, we continue to monitor the situation as some raw material comes from Russia for the PVD industry. 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 and appears as gain on extinguishment of debt in the Statements of Income during the six months ended June 30, 2021.

The Employee Retention Credit ("ERC"), as originally enacted on March 27, 2020, by the CARES Act, was a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer paid 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 sheets as of June 30, 2022 and December 31, 2021, as Tax Receivable, and as a credit to wages in the Statements of Income during the six months ended June 30, 2021.

The Relief Act extended and enhanced the ERC 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 paid 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 was available for all four quarters of 2021. However, the Infrastructure Investment and Jobs Act enacted on November 15, 2021, ended the ERC effective September 30, 2021.

During the first and second quarter of 2021, we were qualified to receive the ERC. The ERC of \$150,507 and \$151,701 on qualified wages paid in the first and second quarter of 2021, respectively, appears as a credit to wages in the Statements of Income.

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 increased production and 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 specialty bonding processes for Aerospace customers. Those products continue to require research and development expense to accelerate time to market.

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

### RESULTS OF OPERATIONS

#### Three and six months ended June 30, 2022 (unaudited) compared to three and six months ended June 30, 2021 (unaudited):

##### *Revenue*

For the three months ended June 30, 2022, we had record total revenue of \$6,505,005. This was an increase of \$4,532,956 compared to the three months ended June 30, 2021. For the six months ended June 30, 2022, we had record total revenue of \$11,831,437. This was an increase of \$6,837,078 compared to the six months ended June 30, 2021. Higher pricing, primarily attributable to increased raw material costs, higher volume and product mix were key factors that contributed to the increase.

##### *Gross profit*

Gross profit was \$1,377,668 for the three months ended June 30, 2022, compared to \$562,554 for the same three months in 2021, an increase of \$815,114. Gross profit as a percentage of revenue (gross margin) was 21.2% for the second quarter of 2022 compared to 28.5% for the same period in 2021. Gross profit was \$2,371,769 for the six months ended June 30, 2022, compared to \$1,365,590 for the first six months of 2021, an increase of \$1,006,179. Gross margin was 20.0% for the first six months of 2022 compared to 27.3% for the same period in 2021.

The increases in gross profit were due to higher revenue during 2022. The Employee Retention Credit (ERC) reduced cost of revenue in the three and six months ended June 30, 2021, by approximately \$87,000 and \$238,000, respectively. The lower gross margin in 2022 compared to a year ago was due to higher raw material costs in the first half of 2022.

##### *General and administrative expense*

General and administrative expense for the three months ended June 30, 2022, and 2021, was \$423,401 and \$283,708, respectively, an increase of 49.2%. General and administrative expense for the six months ended June 30, 2022, and 2021, was \$796,589 and \$571,589, respectively, an increase of 39.4%. During 2022 there was an increase in staff resulting in higher compensation of approximately \$44,000. Business liability insurance (due to higher revenue) and professional fees, primarily related to SEC compliance costs for legal, accounting and stockholder relations fees, increased approximately \$59,000. The three and six months ended June 30, 2021 included the ERC of \$21,000 and \$57,000, respectively.

##### *Research and development expense*

Research and development expense for the three months ended June 30, 2022, was \$92,085 compared to \$54,377 for the same period in 2021, an increase of 69.3%. Research and development expense for the six months ended June 30, 2022, was \$179,116 compared to \$92,596 for the same period in 2021, an increase of 93.4%. The ERC of \$22,750 and \$61,750 was included in the three and six months ended June 30, 2021, respectively. 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 \$108,140 and \$46,434 for the three months ended June 30, 2022, and 2021, respectively. This was an increase of 132.9%. Marketing and sales expense was \$190,328 and \$97,827 for the six months ended June 30, 2022, and 2021, respectively, an increase of 94.6%.

Travel expenses increased approximately \$22,000 and \$39,000 during the three and six months ended June 30, 2022, respectively, versus the same periods in 2021, as we resumed in-person meetings with some customers and participated onsite in industry trade shows. The three and six months ended June 30, 2021, included the ERC of approximately \$21,000 and \$50,000, respectively.

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

### *Stock compensation expense*

Included in total expenses were noncash stock-based compensation costs of \$8,673 and \$8,675 for the three months ended June 30, 2022, and 2021, respectively, and \$31,972 and \$30,563 for the six months ended June 30, 2022, and 2021, 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 \$3,941 as of June 30, 2022 and will be recognized through 2023.

### *Interest*

Interest expense was \$5,769 for the three months ended June 30, 2022, and \$9,014 for the three months ended June 30, 2021. Interest expense was \$12,262 for the six months ended June 30, 2022, and \$16,652 for the six months ended June 30, 2021. The decrease was due to final payments of multiple finance leases during 2021.

### *Income taxes*

Income tax expense was \$83,400 and \$47,473 for the three months ended June 30, 2022, and 2021, respectively, and \$144,200 and \$138,093 for the six months ended June 30, 2022, and 2021, respectively. At December 31, 2021, the deferred tax asset was \$663,820. Management considered new evidence, both positive and negative, during the first half of 2022 that could affect its view of the future realization of deferred tax assets and determined that no valuation allowance was necessary, and the deferred tax asset was \$531,720 at June 30, 2022.

### *Income applicable to common stock*

Income applicable to common stock for the three months ended June 30, 2022, and 2021, was \$664,873 and \$115,510, respectively. Income applicable to common stock for the six months ended June 30, 2022, and 2021, was \$1,049,274 and \$762,057, respectively. The increase was primarily the result of higher revenue and gross profit.

## **Liquidity and Capital Resources**

### *Cash*

As of June 30, 2022, cash on hand was \$5,409,210 compared to \$4,140,942 at December 31, 2021. The increase was principally due to record total revenue and higher gross profit for the first six months of 2022.

### *Working capital*

At June 30, 2022 working capital was \$5,085,961 compared to \$3,907,135 at December 31, 2021, an increase of \$1,178,826 or 30.2%. Cash increased \$1,268,268, receivables increased \$287,692, inventories increased \$2,544,430, customer deposits increased \$2,137,883, while prepaid expenses decreased \$632,305.

### *Cash from operations*

Net cash provided by operating activities during the six months ended June 30, 2022, was \$1,490,066 and \$1,249,462 for the six months ended June 30, 2021. In addition to the net income generated, this included depreciation and amortization of \$249,992 and \$273,688, and noncash stock-based compensation costs of \$31,972 and \$30,563 for the six months ended June 30, 2022, and 2021, respectively.

The decrease in prepaid expenses was related to the receipt of inventory paid for in December 2021 and received in January 2022. Inventories and customer deposits increased due to orders received late in 2021 and throughout the first six months of 2022.



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

### *Cash from investing activities*

Cash of \$179,140 and \$558,828 was used in investing activities during the six months ended June 30, 2022, and June 30, 2021, respectively, for the acquisition of production equipment.

### *Cash from financing activities*

Cash of \$47,824 and \$87,422 was used in financing activities for principal payments to third parties for finance lease obligations during the six months ended June 30, 2022, and 2021, respectively. The decrease was due to final payments of multiple finance leases during 2021. A cash dividend payment of \$24,152 was made to owners of our Series B preferred stock during the six months ended June 30, 2021.

### *Debt outstanding*

Total debt outstanding was \$195,392 at June 30, 2022, compared to \$243,218 at December 31, 2021, a decrease of 19.7%. As previously mentioned, cash of \$47,824 was used for principal payments for finance lease obligations during 2022.

### **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, 2021, 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, income tax expense, deferred tax assets and liabilities, realization of deferred tax assets, 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. The tax valuation allowance is based on our consideration of new evidence, both positive and negative, that could affect our view of the future realization of deferred tax assets. If we were to determine we would not be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset would be necessary which would reduce our net income for that period. 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.

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 June 30, 2022, 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(a) [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 July 29, 2022, entitled "SCI Engineered Materials, Inc., Reports 2022 Second Quarter and Year-to-date Results."
- 101 The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in XBRL (eXtensible Business Reporting Language): (i) Balance Sheets at June 30, 2022 and December 31, 2021 (ii) Statements of Income for the three and six months ended June 30, 2022 and 2021, (iii) Statement of Changes in Equity for the three and six months ended June 30, 2022 and 2021, (iv) Statements of Cash Flows for the six months ended June 30, 2022 and 2021, and (v) Notes to Financial Statements.

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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: July 29, 2022

**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, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2022

/s/ Jeremiah R. Young  
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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, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2022

/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 June 30, 2022 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

Jeremiah R. Young  
President and Chief Executive Officer of  
SCI Engineered Materials, Inc.  
(Principal Executive Officer)  
July 29, 2022

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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 June 30, 2022 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)  
July 29, 2022

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