

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, 2023

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

4,530,207 shares of Common Stock, without par value, were outstanding at July 27, 2023.

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>2023</u>	<u>December 31,</u> <u>2022</u>
	<b>(UNAUDITED)</b>	
<b>Current Assets</b>		
Cash	\$ 5,108,113	\$ 3,947,966
Investments - marketable securities, short term	1,000,000	989,265
Accounts receivable		
Trade, less allowance for doubtful accounts of \$15,000	1,037,955	842,647
Tax - Employee Retention Credit	40,539	40,539
Other	12,431	12,653
Inventories, net	1,697,465	2,177,917
Prepaid expenses	147,452	136,134
Total current assets	<u>9,043,955</u>	<u>8,147,121</u>
<b>Property and Equipment, at cost</b>		
Machinery and equipment	8,675,247	8,584,871
Furniture and fixtures	129,476	142,471
Leasehold improvements	607,156	607,156
Construction in progress	131,831	28,708
	<u>9,543,710</u>	<u>9,363,206</u>
Less accumulated depreciation and amortization	<u>(7,298,763)</u>	<u>(7,101,573)</u>
Property and equipment, net	<u>2,244,947</u>	<u>2,261,633</u>
<b>Other Assets</b>		
Investments, net - marketable securities, long term	1,004,478	1,000,000
Right of use asset, net	138,122	185,072
Deferred tax asset	—	151,164
Other assets	82,352	85,138
Total other assets	<u>1,224,952</u>	<u>1,421,374</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,513,854</u>	<u>\$ 11,830,128</u>

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

**SCI ENGINEERED MATERIALS, INC.**

**BALANCE SHEETS**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<u>June 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
	<u>(UNAUDITED)</u>	
<b>Current Liabilities</b>		
Finance lease obligations, current portion	\$ 88,510	\$ 97,367
Operating lease obligations, current portion	110,084	105,789
Accounts payable	532,679	514,512
Customer deposits	1,466,866	1,825,595
Accrued compensation	220,555	270,168
Accrued expenses and other	134,195	122,065
<b>Total current liabilities</b>	<u>2,552,889</u>	<u>2,935,496</u>
Finance lease obligations, net of current portion	8,054	49,149
Deferred tax liability	73,828	—
Operating lease obligations, net of current portion	43,570	99,834
<b>Total liabilities</b>	<u>2,678,341</u>	<u>3,084,479</u>
<b>Shareholders' Equity</b>		
Common stock, no par value, authorized 15,000,000 shares; 4,530,207 and 4,519,524 shares issued and outstanding, respectively	10,662,343	10,618,435
Additional paid-in capital	2,233,384	2,231,807
Accumulated deficit	(3,060,214)	(4,104,593)
<b>Total shareholders' equity</b>	<u>9,835,513</u>	<u>8,745,649</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 12,513,854</u>	<u>\$ 11,830,128</u>

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

**SCI ENGINEERED MATERIALS, INC.**

**STATEMENTS OF INCOME**

**THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022**

**(UNAUDITED)**

	<u>THREE MONTHS ENDED JUNE 30,</u>		<u>SIX MONTHS ENDED JUNE 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenue	\$ 7,457,690	\$ 6,505,005	\$ 13,254,837	\$ 11,831,437
Cost of revenue	<u>6,204,080</u>	<u>5,127,337</u>	<u>10,676,630</u>	<u>9,459,668</u>
Gross profit	1,253,610	1,377,668	2,578,207	2,371,769
General and administrative expense	419,083	423,401	851,496	796,589
Research and development expense	115,493	92,085	250,853	179,116
Marketing and sales expense	<u>127,243</u>	<u>108,140</u>	<u>236,814</u>	<u>190,328</u>
Income from operations	591,791	754,042	1,239,044	1,205,736
Interest (income) expense, net	<u>(63,914)</u>	<u>5,769</u>	<u>(112,891)</u>	<u>12,262</u>
Income before provision for income taxes	655,705	748,273	1,351,935	1,193,474
Income tax expense	<u>144,346</u>	<u>83,400</u>	<u>302,556</u>	<u>144,200</u>
<b>NET INCOME</b>	<u>\$ 511,359</u>	<u>\$ 664,873</u>	<u>\$ 1,049,379</u>	<u>\$ 1,049,274</u>
Earnings per share - basic and diluted (Note 7)				
Income per common share				
Basic	<u>\$ 0.11</u>	<u>\$ 0.15</u>	<u>\$ 0.23</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.11</u>	<u>\$ 0.15</u>	<u>\$ 0.23</u>	<u>\$ 0.23</u>
Weighted average shares outstanding				
Basic	<u>4,530,207</u>	<u>4,514,492</u>	<u>4,527,669</u>	<u>4,512,396</u>
Diluted	<u>4,560,315</u>	<u>4,541,819</u>	<u>4,557,863</u>	<u>4,539,988</u>

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, 2023 AND 2022**  
**(UNAUDITED)**

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
<b>Balance 12/31/2022</b>	\$ 10,618,435	\$ 2,231,807	\$ (4,104,593)	\$ 8,745,649
Adoption of ASU 2016-13 (Note 3)	—	—	(5,000)	(5,000)
Stock based compensation expense (Note 5)	—	1,182	—	1,182
Common stock issued (Note 5)	43,908	—	—	43,908
Net income	—	—	538,020	538,020
<b>Balance 3/31/2023</b>	<u>\$ 10,662,343</u>	<u>\$ 2,232,989</u>	<u>\$ (3,571,573)</u>	<u>\$ 9,323,759</u>
Stock based compensation expense (Note 5)	—	395	—	395
Net income	—	—	511,359	511,359
<b>Balance 6/30/2023</b>	<u>\$ 10,662,343</u>	<u>\$ 2,233,384</u>	<u>\$ (3,060,214)</u>	<u>\$ 9,835,513</u>
<b>Balance 12/31/2021</b>	\$ 10,573,843	\$ 2,227,078	\$ (6,061,617)	\$ 6,739,304
Stock based compensation expense (Note 5)	—	1,183	—	1,183
Common stock issued (Note 5)	22,116	—	—	22,116
Net income	—	—	384,401	384,401
<b>Balance 3/31/2022</b>	<u>\$ 10,595,959</u>	<u>\$ 2,228,261</u>	<u>\$ (5,677,216)</u>	<u>\$ 7,147,004</u>
Stock based compensation expense (Note 5)	—	1,182	—	1,182
Common stock issued (Note 5)	7,491	—	—	7,491
Net income	—	—	664,873	664,873
<b>Balance 6/30/2022</b>	<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, 2023 AND 2022**  
**(UNAUDITED)**

	<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,049,379	\$ 1,049,274
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and accretion	227,799	203,944
Amortization of patents	2,207	2,207
Stock based compensation	45,485	31,972
Gain on disposal of equipment	(9,142)	(5,166)
Deferred taxes	224,992	132,100
Inventory reserve	2,472	(16,855)
Changes in operating assets and liabilities:		
Accounts receivable	(195,085)	(287,692)
Inventories	477,980	(2,527,575)
Prepaid expenses	(11,318)	632,305
Other assets	579	(2)
Accounts payable	18,166	180,425
Operating lease assets and liabilities, net	(5,019)	(3,895)
Accrued expenses and customer deposits	(399,662)	2,099,024
Net cash provided by operating activities	1,428,833	1,490,066
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of equipment	16,000	5,166
Purchases of marketable securities	(509,478)	—
Proceeds from maturities of marketable securities	489,265	—
Purchases of property and equipment	(214,522)	(179,140)
Net cash used in investing activities	(218,735)	(173,974)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on finance lease obligations	(49,951)	(47,824)
Net cash used in financing activities	(49,951)	(47,824)
<b>NET INCREASE IN CASH</b>	<b>\$ 1,160,147</b>	<b>\$ 1,268,268</b>
CASH - Beginning of year	3,947,966	4,140,942
CASH - End of period	<b>\$ 5,108,113</b>	<b>\$ 5,409,210</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ 2,699	\$ 4,826
Income taxes	82,368	10,863
<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**

**(UNAUDITED)**

**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, 2022. 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 creditworthiness of each customer. The Company sells its products typically under agreements with payment terms of 30-60 days. The Company does not normally 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, 2023 and 2022. The top two customers represented approximately 88% and 87% of total revenue for the six months ended June 30, 2023 and 2022, respectively. International shipments were 1% of total revenue for the three and six months ended June 30, 2023 and 2022.



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

(UNAUDITED)

**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 2021 and 2020. 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. A balance of \$40,539 appears as a tax receivable on the balance sheets at June 30, 2023 and December 31, 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 measure credit losses for most financial assets, including accounts receivable and held-to-maturity marketable securities, 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 became effective for us in the first quarter of 2023. The adoption of ASU No. 2016-13 resulted in a cumulative effect of \$5,000 and is reflected in the accompanying Statement of Shareholders' Equity.

**Note 4. Investments**

As of June 30, 2023 and December 31, 2022, the Company held investments in corporate bonds and U.S. government securities that are required to be measured for disclosure purposes at fair value on a recurring basis. The bonds and government securities are considered held-to-maturity and are recorded at amortized cost on the balance sheet. These investments are considered level 2 as detailed in the table below. The Company considers investments which will mature in the next twelve months and interest receivable on the long-term bonds as current assets. The remaining investments are considered non-current assets including the investment in marketable securities which the Company intends to hold longer than twelve months. The fair value of these investments was estimated using recently executed transactions and market price quotations. At June 30, 2023, the length of time until maturity of the bonds currently owned ranged from 5 months to 23 months. The amortized cost, allowance for credit losses, fair value, and the related unrecognized gains and losses of these investments, were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Losses</u>	<u>Gross Unrealized Gains</u>	<u>Fair Value</u>
<b>June 30, 2023</b>				
Corporate bonds	\$ 1,500,000	\$ (10,472)	\$ —	\$ 1,489,528
U.S. government treasuries	509,478	(10,013)	—	499,465
Total investments	<u>\$ 2,009,478</u>	<u>\$ (20,485)</u>	<u>\$ —</u>	<u>\$ 1,988,993</u>
Allowance for credit losses	<u>(5,000)</u>			
Total investments, net	<u>\$ 2,004,478</u>			
<b>December 31, 2022</b>				
Corporate bonds	\$ 1,500,000	\$ (1,924)	\$ —	\$ 1,498,076
U.S. government treasuries	489,265	—	2,665	491,930
Total investments	<u>\$ 1,989,265</u>	<u>\$ (1,924)</u>	<u>\$ 2,665</u>	<u>\$ 1,990,006</u>

The Company uses an "expected credit loss" measurement objective for the recognition of credit losses for held-to-maturity securities at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period as necessary for changes in expected lifetime credit losses. The credit loss calculations for held-to-maturity securities are based upon historical default and recovery rates of bonds rated with the same rating as the current portfolio. An adjustment factor is applied to these credit loss calculations based upon management's assessment of the expected impact from current economic conditions on our investments. The Company monitors the credit quality of debt securities classified as held-to-maturity through the use of their respective credit ratings and updates them on a quarterly basis with the latest assessment completed on June 30, 2023. Our allowance for credit losses was \$5,000 at June 30, 2023.

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

(UNAUDITED)

**Note 5. 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 \$395 and \$8,673 for the three months ended June 30, 2023, and 2022, respectively, and \$45,485 and \$31,972 for the six months ended June 30, 2023, and 2022, respectively. Unrecognized compensation expense was \$0 as of June 30, 2023.

Employees received compensation of 10,683 and 4,500 aggregate shares of common stock of the Company during the six months ended June 30, 2023 and 2022, respectively. These shares had an aggregate value of \$43,908 and \$14,625 at June 30, 2023 and 2022, respectively, and were recorded as non-cash stock compensation expense in the financial statements.

The non-employee Board members received compensation of 4,610 aggregate shares of common stock of the Company with an aggregate value of \$14,982 during the six months ended June 30, 2022 that was recorded as non-cash stock compensation expense in the financial statements.

The cumulative status of options granted and outstanding at June 30, 2023, and December 31, 2022, as well as any options which became exercisable in connection with the Company's stock option plans is summarized as follows:

**Employee Stock Options**

	Stock Options	Weighted Average Exercise Price
Outstanding at January 1, 2022	41,304	\$ 1.05
Outstanding at December 31, 2022	41,304	\$ 1.05
Outstanding at June 30, 2023	41,304	\$ 1.05
Options exercisable at December 31, 2022	34,361	\$ 1.01
Options exercisable at June 30, 2023	41,304	\$ 1.05

Exercise prices for options ranged from \$0.84 to \$1.25 at June 30, 2023. The weighted average option price for all options outstanding at June 30, 2023, was \$1.05 with a weighted average remaining contractual life of 3.1 years.

**Note 6. Inventories**

Inventories consisted of the following:

	June 30, 2023	December 31, 2022
Raw materials	\$ 619,959	\$ 1,375,669
Work-in-process	995,076	528,631
Finished goods	95,333	284,048
	1,710,368	2,188,348
Inventory reserve	(12,903)	(10,431)
	<u>\$ 1,697,465</u>	<u>\$ 2,177,917</u>

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

(UNAUDITED)

**Note 7. Earnings Per Share**

Basic income per share is calculated as net income divided by the weighted average of common shares outstanding. Diluted earnings per share is calculated as diluted net income 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 5 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:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net income	<u>\$ 511,359</u>	<u>\$ 664,873</u>	<u>\$ 1,049,379</u>	<u>\$ 1,049,274</u>
Weighted average common shares outstanding - basic	4,530,207	4,514,492	4,527,669	4,512,396
Effect of dilution - stock options	<u>30,108</u>	<u>27,327</u>	<u>30,194</u>	<u>27,592</u>
Weighted average shares outstanding - diluted	<u>4,560,315</u>	<u>4,541,819</u>	<u>4,557,863</u>	<u>4,539,988</u>

**Note 8. Note Payable**

The Company renewed its line of credit with Fifth Third Bank for \$1 million during 2022. 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, 2023. No amounts were drawn on this line of credit as of June 30, 2023.

**Note 9. Income Taxes**

The provision for income taxes for the three and six months ended June 30, 2023 and 2022 is based on our projected annual effective tax rate for fiscal year 2023, adjusted for permanent differences and specific items that are required to be recognized in the period in which they are incurred. The effective tax rate for the first six months of 2023 was 22.4% compared to the tax rate for calendar year 2022 of 21.7%.

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Federal	<u>\$ 137,360</u>	<u>\$ 76,100</u>	<u>\$ 283,734</u>	<u>\$ 132,100</u>
State and local	<u>6,986</u>	<u>7,300</u>	<u>18,822</u>	<u>12,100</u>
	<u>\$ 144,346</u>	<u>\$ 83,400</u>	<u>\$ 302,556</u>	<u>\$ 144,200</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 \$42,000 at December 31, 2022, which are expected to be fully utilized in 2023.

As of December 31, 2022, management determined that there was sufficient positive evidence to conclude that it is more likely than not that deferred taxes of \$151,164 were realizable principally because we achieved six 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 taxes. Accordingly, management determined that no valuation allowance was necessary at December 31, 2022. The deferred tax asset was \$0, and the deferred tax liability was \$73,828 at June 30, 2023.

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

(UNAUDITED)

**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 \$57,300 and \$56,200 during the six months ended June 30, 2023 and 2022, respectively. Additionally, the variable lease costs were approximately \$33,500 and \$27,500 during the six months ended June 30, 2023 and 2022, respectively.

The following is a maturity analysis, by year, of the annual undiscounted cash outflows of the operating lease liabilities as of June 30, 2023:

2023	\$	57,566
2024		102,550
Total minimum lease payments		<u>160,116</u>
Less debt discount		<u>6,462</u>
Total operating lease obligations		<u>\$ 153,654</u>
	<u>2023</u>	<u>2022</u>
Operating cash outflows from operating lease - year-to-date	\$ 51,969	\$ 47,736
Weighted average remaining lease term – operating lease	1.4 years	2.4 years
Weighted average discount rate – operating lease	5.5 %	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, 2023, are shown in the following table.

2023	\$	49,024
2024		49,859
Total minimum lease payments		<u>98,883</u>
Less amount representing interest		<u>2,319</u>
Present value of minimum lease payments		<u>96,564</u>
Less current portion		<u>88,510</u>
Finance lease obligations, net of current portion		<u>\$ 8,054</u>
Weighted average remaining lease term – finance leases		1.1 years
Weighted average discount rate – finance leases		4.28 %

The equipment under finance lease at June 30, 2023, and December 31, 2022, is included in the accompanying balance sheets as follows:

	<u>June 30, 2023</u>	<u>Dec. 31, 2022</u>
Machinery and equipment	\$ 385,923	\$ 385,923
Less accumulated depreciation and amortization	<u>123,672</u>	<u>104,376</u>
Net book value	<u>\$ 262,251</u>	<u>\$ 281,547</u>

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

**(UNAUDITED)**

**Note 11. Finance Leases (continued)**

These assets are amortized over a period of ten years using the straight-line method and amortization is included in depreciation expense. Finance lease costs totaled \$49,951 and \$47,824 for the six months ended June 30, 2023 and 2022, respectively.

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 was transferred to the Company in accordance with the terms of the leases and these assets have been excluded from the leased asset disclosure above.

## 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, 2022.

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, 2022, 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 we 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 three months ended June 30, 2023, we had record total revenue of \$7,457,690 compared to \$6,505,005 for the three months ended June 30, 2022. For the six months ended June 30, 2023, we had record total revenue of \$13,254,837 compared to \$11,831,437 for the six months ended June 30, 2022. Higher volume continued as the key factor that contributed to the increase, despite lower raw material costs compared to the same periods last year.

Gross profit was \$1,253,610 for the three months ended June 30, 2023 compared to \$1,377,668 for the same three months in 2022. Gross profit was \$2,578,207 for the six months ended June 30, 2023 compared to \$2,371,769 for the same three months in 2022.

Operating expenses were \$661,819 and \$623,626 for the three months ended June 30, 2023 and 2022, respectively. Operating expenses were \$1,339,163 and \$1,166,033 for the six months ended June 30, 2023 and 2022, respectively.

Income from operations was \$591,791 and \$754,042 for the three months ended June 30, 2023 and 2022, respectively. Income from operations was \$1,239,044 and \$1,205,736 for the six months ended June 30, 2023 and 2022, respectively.

Consistent with our growth strategy, we are pursuing opportunities in niche markets of the global photonics industry which can benefit from our expertise in custom powder solutions for advanced materials, innovative products and applications, diffusion and indium bonding, and toll processing services. Investments continue to be made offering customers alternatives to lower their total cost of ownership for reclaim and repress processes. We recently launched a targeted online campaign through LinkedIn® to highlight this service.

Initiatives are also being pursued to leverage utilization of our vacuum hot presses, cold isostatic press, and kilns for increased production and development projects. We recently completed enclosure of our grinding machines which enhances our manufacturing footprint.

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

Several issues are affecting national and global market conditions. First, inflation continues to impact labor, raw material costs and transportation expenses. We have often 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' businesses 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, increased political uncertainties continue to affect global markets. Although we currently have no customers or suppliers 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, including identifying additional suppliers and adapting to our customers' specific circumstances and forecasts.

### RESULTS OF OPERATIONS

**Three and six months ended June 30, 2023 (unaudited) compared to three and six months ended June 30, 2022 (unaudited):**

#### *Revenue*

For the three months ended June 30, 2023, we had record total revenue of \$7,457,690. This was an increase of \$952,685, compared to the three months ended June 30, 2022. For the six months ended June 30, 2023, we had record total revenue of \$13,254,837 which was an increase of \$1,423,400, compared to the six months ended June 30, 2022. Higher volume continued as the key factor that contributed to the increase, despite lower raw material costs compared to the same period last year.

#### *Gross profit*

Gross profit was \$1,253,610 for the three months ended June 30, 2023, compared to \$1,377,668 for the same three months in 2022, a decrease of \$124,058. Gross profit as a percentage of revenue (gross margin) was 16.8% for the second quarter of 2023 compared to 21.2% for the second quarter of 2022. Gross profit and gross margin for the 2023 second quarter declined compared to last year due to the combination of product mix and lower raw material costs. Gross profit was \$2,578,207 for the six months ended June 30, 2023, compared to \$2,371,769 for the same six months in 2022, an increase of \$206,438. Gross margin was 19.5% for the six months ended June 30, 2023 compared to 20.0% for the same period in 2022.

#### *General and administrative expense*

General and administrative expense for the three months ended June 30, 2023 and 2022, was \$419,083, and \$423,401, respectively, a decrease of 1.0%. An increase in compensation of \$19,211 was offset by a decrease in business liability insurance of \$15,445, and a decrease in professional fees of \$4,824. General and administrative expense for the six months ended June 30, 2023 and 2022, was \$851,496 and \$796,589, respectively, an increase of 6.9%. This increase was primarily due to an increase in compensation of \$61,330.

#### *Research and development expense*

Research and development expense for the three months ended June 30, 2023, was \$115,493 compared to \$92,085 for the same period in 2022, an increase of 25.4%. This increase was attributed to higher compensation of \$4,750, and outside consulting of \$15,549. Research and development expense for the six months ended June 30, 2023, was \$250,853 compared to \$179,116 for the same period in 2022, an increase of 40.1%. This increase was attributed to higher compensation of \$23,699, outside consulting of \$32,338 and materials and supplies of \$14,274. 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.

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

### *Marketing and sales expense*

Marketing and sales expense was \$127,243 and \$108,140 for the three months ended June 30, 2023, and 2022, respectively. This was an increase of 17.7%. Compensation expense and travel expense increased \$10,473 and \$7,362, respectively, during the three months ended June 30, 2023 compared to the same period in 2022. Marketing and sales expense was \$236,814 and \$190,328 for the six months ended June 30, 2023, and 2022, respectively. This was an increase of 24.4%. Compensation expense and travel expense increased \$27,998 and \$16,587, respectively, during the six months ended June 30, 2023 compared to the same period in 2022. We increased our sales staff in May 2023, and exhibited at major international photonics trade shows during the first and second quarters of 2023.

### *Stock compensation expense*

Included in total expenses were noncash stock-based compensation costs of \$395 and \$8,673 for the three months ended June 30, 2023 and 2022, respectively. Included in total expenses were noncash stock-based compensation costs of \$45,485 and \$31,972 for the six months ended June 30, 2023 and 2022, 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 \$0 at June 30, 2023.

### *Interest*

Interest income, net was \$63,914, and \$112,891 for the three and six months ended June 30, 2023, respectively. Interest expense, net was \$5,769 and \$12,262 for the three and six months ended June 30, 2022, respectively. The improvement was due to our approximately \$2.0 million of investments in marketable securities which benefited from an overall increase in interest rates. Interest expense has decreased as we continue to reduce our debt outstanding.

### *Income taxes*

Income tax expense was \$144,346, and \$83,400 for the three months ended June 30, 2023, and 2022, respectively. Income tax expense was \$302,556, and \$144,200 for the six months ended June 30, 2023, and 2022, respectively. The effective tax rate for the three and six months ended June 30, 2023 was 22.0% and 22.4%, respectively, compared to the tax rate of 21.7% for calendar year 2022. At December 31, 2022, the deferred tax asset was \$151,164. 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 at December 31, 2022. The deferred tax asset was \$0, and the deferred tax liability was \$73,828 at June 30, 2023.

### *Net income*

Net income for the three months ended June 30, 2023, and 2022, was \$511,359 and \$664,873, respectively. The decrease in the second quarter was the result of lower gross profit and higher operating and income tax expenses. Net income for the six months ended June 30, 2023, and 2022, was \$1,049,379, and \$1,049,274, respectively.

## **Liquidity and Capital Resources**

### *Cash*

As of June 30, 2023, cash on hand was \$5,108,113 compared to \$3,947,966 at December 31, 2022 due to net cash provided by operating activities partially offset by our investment in our manufacturing footprint and acquisition of production equipment.

### *Working capital*

At June 30, 2023, working capital was \$6,491,066 compared to \$5,211,625 at December 31, 2022, an increase of \$1,279,441 or 24.5%. Cash increased \$1,160,147, accounts receivable increased \$195,085, while inventories and customer deposits decreased \$480,452, and \$358,729, respectively.



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

### *Cash from operations*

Net cash provided by operating activities during the six months ended June 30, 2023, was \$1,428,833 and \$1,490,066 for the six months ended June 30, 2022. In addition to the net income generated, this included depreciation and amortization of \$230,006 and \$206,151, and noncash stock-based compensation costs of \$45,485 and \$31,972 for the six months ended June 30, 2023, and 2022, respectively. The changes in inventories, accounts receivable, and customer deposits compared to December 31, 2022, were related to the increase in shipments and orders received during the first six months of 2023. Customer orders remain strong, and customers continue to monitor inventory closely with continued emphasis on intra-quarter shipments.

### *Cash from investing activities*

Cash of \$218,735 was used in investing activities during the six months ended June 30, 2023. Included was \$214,522 which was used for the acquisition of production equipment as well as the enclosure of our ceramic machining area. Cash of \$179,140 was used in investing activities during the six months ended June 30, 2022, for the purchase of production equipment.

### *Cash from financing activities*

Cash of \$49,951 and \$47,824 was used in financing activities for principal payments to third parties for finance lease obligations during the six months ended June 30, 2023, and 2022, respectively.

### *Debt outstanding*

Total debt outstanding, related to finance lease obligations, was \$96,564 at June 30, 2023, compared to \$146,516 at December 31, 2022, a decrease of 34.1%. As previously mentioned, cash of \$49,951 was used for principal payments for finance lease obligations during 2023.

## **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, 2022, 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 and current expected credit losses, 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 creditworthiness 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, 2023, 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.

## PART II. OTHER INFORMATION

### 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).
- 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 28, 2023, entitled "SCI Engineered Materials, Inc., Reports 2023 Second Quarter and Year-to-date Results."
- 101 The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets at June 30, 2023 and December 31, 2022, (ii) Statements of Income for the three and six months ended June 30, 2023 and 2022, (iii) Statement of Changes in Equity for the three and six months ended June 30, 2023 and 2022, (iv) Statements of Cash Flows for the six months ended June 30, 2023 and 2022, and (v) Notes to Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* 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.

### SCI ENGINEERED MATERIALS, INC.

Date: July 28, 2023

/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 28, 2023

/s/ Jeremiah R. Young

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

**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 28, 2023

/s/ Gerald S. Blaskie

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

**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, 2023 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 28, 2023

**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, 2023 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

Gerald S. Blaskie

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

July 28, 2023