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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 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	**31-1210318**
(State or other jurisdiction of incorporation or organization)	(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 ☒

4,530,207 shares of Common Stock, without par value, were outstanding at October 26, 2023.

FORM 10-Q

SCI ENGINEERED MATERIALS, INC.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

ASSETS

	September 30, 2023 (UNAUDITED)	December 31, 2022
Current Assets		
Cash and cash equivalents	$ 5,798,613	$ 3,947,966
Investments - marketable securities, short term	1,000,000	989,265
Accounts receivable		
Trade, less allowance for doubtful accounts of $15,000	1,218,826	842,647
Tax - Employee Retention Credit	40,539	40,539
Other	31,785	12,653
Inventories, net	3,187,221	2,177,917
Prepaid purchase orders	1,171,740	—
Prepaid expenses	91,327	136,134
Total current assets	12,540,051	8,147,121
Property and Equipment, at cost		
Machinery and equipment	8,683,695	8,584,871
Furniture and fixtures	129,476	142,471
Leasehold improvements	740,331	607,156
Construction in progress	30,371	28,708
	9,583,873	9,363,206
Less accumulated depreciation and amortization	(7,269,854)	(7,101,573)
Property and equipment, net	2,314,019	2,261,633
Other Assets		
Investments, net - marketable securities, long term	997,478	1,000,000
Right of use asset, net	117,487	185,072
Deferred tax asset	—	151,164
Other assets	81,248	85,138
Total other assets	1,196,213	1,421,374
TOTAL ASSETS	$ 16,050,283	$ 11,830,128

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

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS’ EQUITY

	September 30, 2023 (UNAUDITED)	December 31, 2022
Current Liabilities		
Finance lease obligations, current portion	$ 71,178	$ 97,367
Operating lease obligations, current portion	111,993	105,789
Accounts payable	477,644	514,512
Customer deposits	4,236,427	1,825,595
Accrued compensation	383,554	270,168
Accrued expenses and other	119,885	122,065
Total current liabilities	5,400,681	2,935,496
Finance lease obligations, net of current portion	—	49,149
Deferred tax liability	215,967	—
Operating lease obligations, net of current portion	19,338	99,834
Total liabilities	5,635,986	3,084,479
Shareholders' Equity		
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	(2,481,430)	(4,104,593)
Total shareholders' equity	10,414,297	8,745,649
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 16,050,283	$ 11,830,128

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

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF INCOME

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2023	THREE MONTHS ENDED SEPTEMBER 30, 2022	NINE MONTHS ENDED SEPTEMBER 30, 2023	NINE MONTHS ENDED SEPTEMBER 30, 2022
Revenue	$ 7,700,123	$ 5,816,838	$ 20,954,960	$ 17,648,275
Cost of revenue	6,313,460	4,645,255	16,990,090	14,104,923
Gross profit	1,386,663	1,171,583	3,964,870	3,543,352
General and administrative expense	433,656	374,193	1,285,152	1,170,782
Research and development expense	121,554	93,081	372,407	272,197
Marketing and sales expense	121,244	94,594	358,058	284,922
Income from operations	710,209	609,715	1,949,253	1,815,451
Interest (income) expense, net	(81,252)	(363)	(194,143)	11,899
Income before provision for income taxes	791,461	610,078	2,143,396	1,803,552
Income tax expense	212,677	167,375	515,233	311,575
NET INCOME	$ 578,784	$ 442,703	$ 1,628,163	$ 1,491,977
Earnings per share - basic and diluted (Note 7)				
Income per common share				
Basic	$ 0.13	$ 0.10	$ 0.36	$ 0.33
Diluted	$ 0.13	$ 0.10	$ 0.36	$ 0.33
Weighted average shares outstanding				
Basic	4,530,207	4,516,518	4,528,524	4,513,785
Diluted	4,561,708	4,544,651	4,559,208	4,541,590

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

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(UNAUDITED)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
Balance 6/30/2023	$ 10,662,343	$ 2,233,384	$ (3,060,214)	$ 9,835,513
Net income	—	—	578,784	578,784
Balance 9/30/2023	$ 10,662,343	$ 2,233,384	$ (2,481,430)	$ 10,414,297
Balance 6/30/2022	$ 10,603,450	$ 2,229,443	$ (5,012,343)	$ 7,820,550
Stock based compensation expense (Note 5)	—	1,182	—	1,182
Common stock issued (Note 5)	7,488	—	—	7,488
Net income	—	—	442,703	442,703
Balance 9/30/2022	$ 10,610,938	$ 2,230,625	$ (4,569,640)	$ 8,271,923
Balance 12/31/2022	$ 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)	—	1,577	—	1,577
Common stock issued (Note 5)	43,908	—	—	43,908
Net income	—	—	1,628,163	1,628,163
Balance 9/30/2023	$ 10,662,343	$ 2,233,384	$ (2,481,430)	$ 10,414,297
Balance 12/31/2021	$ 10,573,843	$ 2,227,078	$ (6,061,617)	$ 6,739,304
Stock based compensation expense (Note 5)	—	3,547	—	3,547
Common stock issued (Note 5)	37,095	—	—	37,095
Net income	—	—	1,491,977	1,491,977
Balance 9/30/2022	$ 10,610,938	$ 2,230,625	$ (4,569,640)	$ 8,271,923

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

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,628,163	$ 1,491,977
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and accretion	344,291	305,480
Amortization of patents	3,311	3,311
Stock based compensation	45,485	40,642
(Gain) loss on disposal of equipment	(9,142)	5,959
Deferred taxes	367,131	288,000
Inventory reserve	3,990	(15,925)
Changes in operating assets and liabilities:		
Accounts receivable	(395,311)	(156,805)
Inventories	(1,013,294)	(363,445)
Prepaid purchase orders and expenses	(1,126,933)	586,565
Other assets	7,579	—
Accounts payable	(36,868)	256,365
Operating lease assets and liabilities, net	(6,707)	(5,844)
Accrued expenses and customer deposits	2,516,863	(384,601)
Net cash provided by operating activities	2,328,558	2,051,679
CASH FLOWS FROM INVESTING ACTIVITIES		
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	(398,360)	(511,399)
Net cash used in investing activities	(402,573)	(506,233)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance lease obligations	(75,338)	(72,131)
Net cash used in financing activities	(75,338)	(72,131)
NET INCREASE IN CASH	$ 1,850,647	$ 1,473,315
CASH - Beginning of year	3,947,966	4,140,942
CASH - End of period	$ 5,798,613	$ 5,614,257
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 3,639	$ 6,846
Income taxes	124,424	17,986
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Increase in asset retirement obligation	5,175	5,175

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 nine months ended September 30, 2023 and 2022. The top two customers represented 89% of total revenue for the nine months ended September 30, 2023 and 2022. International shipments were 1% of total revenue for the nine months ended September 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 September 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

Money market funds – where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. The Company invested in a money market fund during August 2023 which had a fair value of $1,006,347 at September 30, 2023. This is valued at original cost plus interest and is included in Cash and cash equivalents on the balance sheet.

As of September 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 September 30, 2023, the length of time until maturity of the bonds currently owned ranged from 2 months to 20 months. The amortized cost, allowance for credit losses, fair value, and the related unrecognized gains and losses of these investments, were as follows:

	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
September 30, 2023				
Corporate bonds	$ 1,500,000	$ (8,560)	$ —	$ 1,491,440
U.S. government treasuries	509,478	(9,243)	—	500,235
Total investments	$ 2,009,478	$ (17,803)	$ —	$ 1,991,675
Allowance for credit losses	(12,000)			
Total investments, net	$ 1,997,478			
December 31, 2022				
Corporate bonds	$ 1,500,000	$ (1,924)	$ —	$ 1,498,076
U.S. government treasuries	489,265	—	2,665	491,930
Total investments	$ 1,989,265	$ (1,924)	$ 2,665	$ 1,990,006

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

SCI ENGINEERED MATERIALS, INC
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

Note 4. Investments (continued)

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 September 30, 2023. Our allowance for credit losses was $12,000 at September 30, 2023.

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 $0 and $8,670 for the three months ended September 30, 2023, and 2022, respectively, and $45,485 and $40,642 for the nine months ended September 30, 2023, and 2022, respectively. Unrecognized compensation expense was $0 as of September 30, 2023.

Employees received compensation of 10,683 and 4,500 aggregate shares of common stock of the Company during the nine months ended September 30, 2023 and 2022, respectively. These shares had an aggregate value of $43,908 and $14,625 at September 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 6,550 aggregate shares of common stock of the Company with an aggregate value of $22,471 during the nine months ended September 30, 2022 that was recorded as non-cash stock compensation expense in the financial statements.

The cumulative status of options granted and outstanding at September 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 September 30, 2023	41,304	$ 1.05
Options exercisable at December 31, 2022	34,361	$ 1.01
Options exercisable at September 30, 2023	41,304	$ 1.05

Exercise prices for options ranged from $0.84 to $1.25 at September 30, 2023. The weighted average option price for all options outstanding at September 30, 2023, was $1.05 with a weighted average remaining contractual life of 2.9 years.

Note 6. Inventories

Inventories consisted of the following:

	September 30, 2023	December 31, 2022
Raw materials	$ 1,913,985	$ 1,375,669
Work-in-process	1,160,111	528,631
Finished goods	127,546	284,048
	3,201,642	2,188,348
Inventory reserve	(14,421)	(10,431)
	$ 3,187,221	$ 2,177,917

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:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net income	$ 578,784	$ 442,703	$ 1,628,163	$ 1,491,977
Weighted average common shares outstanding - basic	4,530,207	4,516,518	4,528,524	4,513,785
Effect of dilution - stock options	31,501	28,133	30,684	27,805
Weighted average shares outstanding - diluted	4,561,708	4,544,651	4,559,208	4,541,590

Note 8. Note Payable

The Company renewed its line of credit with Fifth Third Bank for $1 million during August 2023. 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, 2024. No amounts were drawn on this line of credit as of September 30, 2023.

Note 9. Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2023 and 2022 is based on our projected annual effective tax rate, 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 nine months of 2023 was 24.0% compared to the tax rate for calendar year 2022 of 21.7%. The difference between the effective tax rate and the marginal rate is primarily due to the effect of state and local taxes.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Federal	$ 192,394	$ 155,900	$ 476,128	$ 288,000
State and local	20,283	11,475	39,105	23,575
	$ 212,677	$ 167,375	$ 515,233	$ 311,575

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. 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 $215,967 at September 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 $45,000 and $24,500 during the three months ended September 30, 2023 and 2022, respectively, and approximately $85,900 and $84,300 during the nine months ended September 30, 2023 and 2022, respectively. Additionally, the variable lease costs were approximately $11,500 and ($3,000) during the three months ended September 30, 2023 and 2022, respectively, and approximately $45,000 and $24,500 during the nine months ended September 30, 2023 and 2022, respectively. A credit related to common area maintenance and real estate tax reconciliation was received during the third quarter of 2022.

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

2023	$	28,920
2024		107,094
Total minimum lease payments		136,014
Less debt discount		4,683
Total operating lease obligations	$	131,331

		2023		2022
Operating cash outflows from operating lease - year-to-date	$	78,357	$	72,183
Weighted average remaining lease term – operating lease		1.2 years		2.2 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 September 30, 2023, are shown in the following table.

2023	$	22,698
2024		49,859
Total minimum lease payments		72,557
Less amount representing interest		1,379
Present value of minimum lease payments		71,178
Less current portion		71,178
Finance lease obligations, net of current portion	$	—

Weighted average remaining lease term – finance leases	0.9 years
Weighted average discount rate – finance leases	4.25 %

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

		September 30, 2023		December 31, 2022
Machinery and equipment	$	385,923	$	385,923
Less accumulated depreciation and amortization		133,320		104,376
Net book value	$	252,603	$	281,547

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 $25,386 and $24,305 for the three months ended September 30, 2023 and 2022, respectively, and $75,338 and $72,131 for the nine months ended September 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.

Table of Contents

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 September 30, 2023, we had record total revenue of $7,700,123 compared to $5,816,838 for the three months ended September 30, 2022. For the nine months ended September 30, 2023, we had record total revenue of $20,954,960 compared to $17,648,275 for the nine months ended September 30, 2022. Higher volume continued as the key factor that contributed to the increase during 2023.

Gross profit was $1,386,663 for the three months ended September 30, 2023 compared to $1,171,583 for the same three months in 2022. Gross profit was $3,964,870 for the nine months ended September 30, 2023 compared to $3,543,352 for the same nine months in 2022.

Operating expenses were $676,454 and $561,868 for the three months ended September 30, 2023 and 2022, respectively. Operating expenses were $2,015,617 and $1,727,901 for the nine months ended September 30, 2023 and 2022, respectively.

Income from operations was $710,209 and $609,715 for the three months ended September 30, 2023 and 2022, respectively. Income from operations was $1,949,253 and $1,815,451 for the nine months ended September 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. The Company is developing an innovative rotatable precious metal target product for the photonics industry. Investments also continue to be made offering customers alternatives to lower their total cost of ownership for reclaim and repress processes.

Initiatives are also being pursued to leverage utilization of our vacuum hot presses, cold isostatic press, and kilns for increased production and development projects. During 2023 we completed the 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 seek to pass these increases on 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, and identifying additional suppliers and adapting to our customers' specific circumstances and forecasts. Fourth, on September 15, 2023, the United Auto Workers union commenced a labor strike at select automobile manufacturing facilities. Since then, the labor strike has expanded to include additional facilities. We are actively monitoring these developments and maintaining close contact with our customers.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2023 (unaudited) compared to three and nine months ended September 30, 2022 (unaudited):

Revenue

For the three months ended September 30, 2023, we had record total revenue of $7,700,123. This was an increase of $1,883,285, compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, we had record total revenue of $20,954,960 which was an increase of $3,306,685, compared to the nine months ended September 30, 2022. Higher volume continued as the key factor that contributed to the increase throughout 2023. Raw material costs were higher in the third quarter of 2023 versus 2022 and were lower for the nine months ended September 30, 2023 compared to last year.

Gross profit

Gross profit was $1,386,663 for the three months ended September 30, 2023, compared to $1,171,583 for the same three months in 2022, an increase of $215,080. Gross profit as a percentage of revenue (gross margin) was 18.0% for the third quarter of 2023 compared to 20.1% for the third quarter of 2022. Gross profit and gross margin improved sequentially for the 2023 third quarter and was impacted by higher revenue and product mix. Gross profit was $3,964,870 for the nine months ended September 30, 2023, compared to $3,543,352 for the same nine months in 2022, an increase of $421,518. Gross margin was 18.9% for the nine months ended September 30, 2023 compared to 20.1% for the same period in 2022.

General and administrative expense

General and administrative expense for the three months ended September 30, 2023 and 2022, was $433,656, and $374,193, respectively, an increase of 15.9%. The increase can be attributed to higher compensation and benefits of $33,154, computer services of $10,192, additional investment credit reserve of $7,000 and professional fees of $6,290. General and administrative expense for the nine months ended September 30, 2023 and 2022, was $1,285,152 and $1,170,782, respectively, an increase of 9.8%. This increase was primarily due to an increase in compensation and benefits of $94,484 and computer services of $20,688.

Research and development expense

Research and development expense for the three months ended September 30, 2023, was $121,554 compared to $93,081 for the same period in 2022, an increase of 30.6%. This increase was attributed to an increase in outside consulting expense of $15,789 and higher compensation and benefits of $7,126. Research and development expense for the nine months ended September 30, 2023, was $372,407 compared to $272,197 for the same period in 2022, an increase of 36.8%. This increase was attributed to increase in outside consulting expense of $48,127, higher compensation and benefits of $30,825 and materials and supplies of $13,401. 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 $121,244 and $94,594 for the three months ended September 30, 2023, and 2022, respectively. This was an increase of 28.2%. Compensation and benefits expense increased $23,413 during the three months ended September 30, 2023 compared to the same period in 2022. Marketing and sales expense was $358,058 and $284,922 for the nine months ended September 30, 2023, and 2022, respectively. This was an increase of 25.7%. Compensation expense and travel expense increased $51,411 and $17,399, respectively, during the nine months ended September 30, 2023 compared to the same period in 2022. We increased our sales staff and exhibited at additional international photonics trade shows during 2023.

Stock compensation expense

Included in total expenses were noncash stock-based compensation costs of $0 and $8,670 for the three months ended September 30, 2023 and 2022, respectively, and $45,485 and $40,642 for the nine months ended September 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. There was no unrecognized non-cash stock-based compensation expense at September 30, 2023.

Interest

Interest income, net was $81,252, and $194,143 for the three and nine months ended September 30, 2023, respectively. Interest income, net was $363 for the three months ended September 30, 2023 and interest expense, net was $11,899 for the nine months ended September 30, 2022. The improvement was due to our increase in cash and 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 $212,677, and $167,375 for the three months ended September 30, 2023, and 2022, respectively. Income tax expense was $515,233, and $311,575 for the nine months ended September 30, 2023, and 2022, respectively. The effective tax rate for the nine months ended September 30, 2023 was 24.0%, 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 $215,967 at September 30, 2023.

Net income

Net income for the three months ended September 30, 2023, and 2022, was $578,784 and $442,703, respectively. Net income for the nine months ended September 30, 2023, and 2022, was $1,628,163, and $1,491,977, respectively. The increase was the result of higher revenue and gross profit.

Liquidity and Capital Resources

Cash and cash equivalents

As of September 30, 2023, cash on hand was $5,798,613 compared to $3,947,966 at December 31, 2022. The increase was due to net cash provided by operating activities partially offset by investment in our manufacturing footprint and acquisition of production equipment.

Working capital

At September 30, 2023, working capital was $7,139,370 compared to $5,211,625 at December 31, 2022, an increase of $1,927,745 or 37.0%. Cash increased $1,850,647, accounts receivable-trade increased $376,179, inventories increased $1,009,304, prepaid purchase orders increased $1,171,740 and customer deposits increased $2,410,832.

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 nine months ended September 30, 2023, was $2,328,558 and $2,051,679 for the nine months ended September 30, 2022. In addition to the net income generated, this included depreciation and amortization of $347,602 and $308,791, and noncash stock-based compensation costs of $45,485 and $40,642 for the nine months ended September 30, 2023, and 2022, respectively. The changes in inventories, accounts receivable, prepaid purchase orders and customer deposits compared to December 31, 2022, were related to the increase in shipments and orders received during the first nine months of 2023. Orders remain strong as customers continue to monitor inventory very closely with continued emphasis on intra-quarter shipments.

Cash from investing activities

Cash of $402,573 was used in investing activities during the nine months ended September 30, 2023, which included $398,360 for the acquisition of production equipment as well as the enclosure of our ceramic machining area. Cash of $511,399 was used in investing activities during the nine months ended September 30, 2022, for the purchase of production equipment.

Cash from financing activities

Cash of $75,338 and $72,131 was used in financing activities for principal payments to third parties for finance lease obligations during the nine months ended September 30, 2023, and 2022, respectively.

Debt outstanding

Total debt outstanding of $71,178 was all related to current finance lease obligations at September 30, 2023. This is a decrease of 51.4% from total debt outstanding of $146,516 at December 31, 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, 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 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 to 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 September 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).
31.1	*	Rule 13a-14(a) Certification of Principal Executive Officer.
31.2	*	Rule 13a-14(a) Certification of Principal Financial Officer.
32.1	*	Section 1350 Certification of Principal Executive Officer.
32.2	*	Section 1350 Certification of Principal Financial Officer.
99.1	*	Press Release dated October 27, 2023, entitled "SCI Engineered Materials, Inc., Reports 2023 Third Quarter and Year-to-date Results."
101		The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets at September 30, 2023 and December 31, 2022, (ii) Statements of Income for the three and nine months ended September 30, 2023 and 2022, (iii) Statement of Changes in Equity for the three and nine months ended September 30, 2023 and 2022, (iv) Statements of Cash Flows for the nine months ended September 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: October 27, 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)

Exhibit 31.1

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: October 27, 2023

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

Exhibit 31.2

**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: October 27, 2023

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

Exhibit 32.1

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

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 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)
October 27, 2023

Exhibit 32.2

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

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-Q for the period ending September 30, 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)
October 27, 2023

Exhibit 99.1

Contact: Robert Lentz
(614) 439-6006

SCI Engineered Materials, Inc. Reports
2023 Third Quarter and Year-to-date Results

COLUMBUS, Ohio (October 27, 2023) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQB), today reported financial results for the nine months and three months ended September 30, 2023. SCI is a global supplier and manufacturer of advanced materials for physical vapor deposition thin film applications who works closely with end users and OEMs to develop innovative, customized solutions.

Jeremy Young, President, and Chief Executive Officer, said "The Company achieved record revenue for the first nine months and third quarter of 2023. Sales benefited from further implementation of our long-term growth strategy led by increased marketing initiatives and manufacturing efficiencies. The Company is also pursuing market opportunities through research and development projects, including an innovative rotatable precious metal target product. We entered the final quarter of 2023 with a strong order backlog."

Revenue

The Company achieved record revenue for the nine months and three months ended September 30, 2023. Year-to-date revenue increased 19% to $20,954,960 compared to $17,648,275 a year ago. For the third quarter of 2023, revenue increased 32% to $7,700,123 from $5,816,838 the prior year. Higher volume was the key factor which contributed to the increases for both periods compared to last year. Raw material costs were lower for the first nine months of 2023 and higher for the 2023 third quarter versus the same periods in 2022.

Order backlog was $6.1 million on September 30, 2023, compared to $4.1 million at 2022 year-end and $4.2 million on the same date last year. Customer order rates have been strong throughout 2023, which include a substantial number of intra-quarter shipments.

Gross profit

Gross profit increased 12% and 18%, respectively, for the nine months and three months ended September 30, 2023, compared to a year ago. For the 2023 year-to-date period, gross profit increased to $3,964,870 from $3,543,352 last year. Gross profit for this year's third quarter increased to $1,386,663 from $1,171,583 for the same period in 2022 due to higher revenue and product mix.

Operating expenses

Operating expenses (general and administrative, research and development (R&D), and marketing and sales) increased 17% to $2,015,617 for the 2023 year-to-date period from $1,727,901 last year. This increase was primarily due to higher compensation and benefits, external R&D consulting and expenses related to exhibiting at additional trade shows in 2023.

Operating expenses for the 2023 third quarter increased 20% to $676,454 versus $561,868 in 2022. Higher compensation and benefits, external consulting and travel expenses related to trade shows were key factors that contributed to the year-over-year increase.

Interest (income)/expense, net

Net interest income was $194,143 for the first nine months of 2023 compared to net interest expense of $11,899 last year. For the 2023 third quarter, net interest income increased to $81,252 from $363 a year ago. Both periods in 2023 benefited from the Company's investments of approximately $2,000,000 in marketable securities during the third quarter of 2022 and subsequently higher interest rates.

Income tax expense

Income tax expense increased to $515,233 for the first nine months of 2023 from $311,575 a year ago. The 2023 third quarter income tax expense was $212,677 versus $167,375 for the same period last year. The effective tax rate for the first nine months of 2023 was 24% compared to 22% for the 2022 calendar year.

Net income

Net income increased 9% and 31%, respectively, for the nine months and three months ended September 30, 2023, compared to a year ago. For the 2023 year-to-date period, net income increased to $1,628,163 from $1,491,977 last year. Net income for the 2023 third quarter increased to $578,784 from $442,703 a year ago. Both periods in 2023 benefited from higher revenue and gross profit, partially offset by higher operating and income tax expenses.

Earnings per share for the 2023 year-to-date period were $0.36 compared to $0.33 for the same period last year. The 2023 third quarter earnings per share increased to $0.13 from $0.10 a year ago.

Cash and investments

Cash and cash equivalents were $5,798,613 on September 30, 2023, an increase of 47% since December 31, 2022. The Company also had investments in approximately $2,000,000 of marketable securities on September 30, 2023. The increase in cash and cash equivalents is attributable to net cash provided by operating activities, partially offset by investment in the Company's manufacturing footprint and acquisition of production equipment.

Debt outstanding

Total debt outstanding, comprised entirely of current finance lease obligations, was $71,178 on September 30, 2023, representing a decrease of 51% compared to $146,516 at 2022 year-end. There were $75,338 of principal payments during the first nine months of 2023.

About SCI Engineered Materials, Inc.

SCI Engineered Materials is a global supplier and manufacturer of advanced materials for PVD thin film applications who works closely with end users and OEMs to develop innovative, customized solutions. Additional information is available at www.sciengineeredmaterials.com or follow SCI Engineered Materials, Inc. at:

https://www.linkedin.com/company/sci-engineered-materials.-inc https://www.facebook.com/sciengineeredmaterials/

https://www.twitter.com/SciMaterials

This press release contains 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 are not limited to, all statements regarding intent, beliefs, expectations, projections, customer guidance, forecasts, plans of the Company and its management. These forward-looking statements involve numerous risks and uncertainties, including without limitation, other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings, including the Company's Annual Report on Form 10-K for the year ended December 31, 2022. One or more of these factors have affected and could affect the Company's projections in the future. Therefore, there can be no assurances that the forward-looking statements included in this press release will prove to be accurate. Due to the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other persons, that the objectives and plans of the company will be achieved. All forward-looking statements made in this press release are based on information presently available to the management of the Company. The Company assumes no obligation to update any forward-looking statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

ASSETS		September 30, 2023 (UNAUDITED)		December 31, 2022
Current Assets				
Cash and cash equivalents	$	5,798,613	$	3,947,966
Investments - marketable securities, short term		1,000,000		989,265
Accounts receivable, less allowance for doubtful accounts		1,291,150		895,839
Inventories		3,187,221		2,177,917
Prepaid purchase orders and expenses		1,263,067		136,134
Total current assets		12,540,051		8,147,121
Property and Equipment, at cost		9,583,873		9,363,206
Less accumulated depreciation		(7,269,854)		(7,101,573)
Property and equipment, net		2,314,019		2,261,633
Investments, net - marketable securities, long term		997,478		1,000,000
Right of use asset, net		117,487		185,072
Deferred tax asset		—		151,164
Other assets		81,248		85,138
Total other assets		1,196,213		1,421,374
TOTAL ASSETS	$	16,050,283	$	11,830,128
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Short term debt	$	71,178	$	97,367
Operating lease, short term		111,993		105,789
Accounts payable		477,644		514,512
Customer deposits		4,236,427		1,825,595
Accrued expenses		503,439		392,233
Total current liabilities		5,400,681		2,935,496
Long term debt		—		49,149
Deferred tax liability		215,967		—
Operating lease, long term		19,338		99,834
Total liabilities		5,635,986		3,084,479
Total Shareholders' Equity		10,414,297		8,745,649
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	16,050,283	$	11,830,128

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	2023	2022	2023	2022
Revenue	$ 7,700,123	$ 5,816,838	$ 20,954,960	$ 17,648,275
Cost of revenue	6,313,460	4,645,255	16,990,090	14,104,923
Gross profit	1,386,663	1,171,583	3,964,870	3,543,352
General and administrative expense	433,656	374,193	1,285,152	1,170,782
Research and development expense	121,554	93,081	372,407	272,197
Marketing and sales expense	121,244	94,594	358,058	284,922
Income from operations	710,209	609,715	1,949,253	1,815,451
Interest (income) expense, net	(81,252)	(363)	(194,143)	11,899
Income before provision for income taxes	791,461	610,078	2,143,396	1,803,552
Income tax expense	212,677	167,375	515,233	311,575
NET INCOME	$ 578,784	$ 442,703	$ 1,628,163	$ 1,491,977
Earnings per share - basic and diluted				
Income per common share				
Basic	$ 0.13	$ 0.10	$ 0.36	$ 0.33
Diluted	$ 0.13	$ 0.10	$ 0.36	$ 0.33
Weighted average shares outstanding				
Basic	4,530,207	4,516,518	4,528,524	4,513,785
Diluted	4,561,708	4,544,651	4,559,208	4,541,590

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(UNAUDITED)

	2023	2022
CASH PROVIDED BY (USED IN):		
Operating activities	$ 2,328,558	$ 2,051,679
Investing activities	(402,573)	(506,233)
Financing activities	(75,338)	(72,131)
NET INCREASE IN CASH	1,850,647	1,473,315
CASH - Beginning of period	3,947,966	4,140,942
CASH - End of period	$ 5,798,613	$ 5,614,257