

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2023

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)

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

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

None
Common Stock, without par value (Title of Class)
OTCQB (Name of each exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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 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 and post 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those errors are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to section 240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the Registrant's common equity held by non-affiliates of the Registrant was approximately \$15,467,650 on June 30, 2023. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes. There were 4,530,207 shares of the Registrant's Common Stock outstanding on February 8, 2024.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the 2024 Annual Meeting of Stockholders are incorporated by reference in Part III.

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Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 26A of the Securities Act of 1933, as amended. The words “anticipate,” “believe,” “expect,” “estimate,” and “project” and similar words and expressions identify forward-looking statements, which speak only as of the date hereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors, including, but not limited to, the factors discussed in “Risk Factors.” The Company undertakes no obligation to publicly update or revise any forward-looking statements.

PART I

ITEM 1. BUSINESS

Introduction

SCI Engineered Materials, Inc. (“SCI”, “we” or the “Company”), an Ohio corporation, was incorporated in 1987. We operate in one segment as a global supplier and manufacturer of advanced materials for Physical Vapor Deposition (“PVD”) thin film applications. We are focused on markets within the PVD 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.

History of the Company

The late Dr. Edward Funk, Sc.D., and his late wife Ingeborg founded SCI in 1987. Dr. Funk, formerly a Professor of Metallurgy at The Ohio State University and a successful entrepreneur, envisioned significant market potential for the then newly discovered High Temperature Superconductivity (“HTS”) material YBCO (T_c of 90° K). Our first product was a 99.999% pure, co-precipitated YBCO 1-2-3 powder. Over the years we expanded our product line by adding other High T_c Powders, sintered shapes, single crystal substrates, and non-superconducting sputtering targets. At this time, we are not pursuing this market, but these early years of development are the foundation on which our material science experience is built.

We opened a subdivision, Target Materials Inc. (“TMI”), in 1991 to supply the increasing worldwide demand for sputtering and laser ablation targets. We became a full-service manufacturer of high-performance thin film materials, providing a wide selection of metals, ceramics, and alloys for sputtering targets, evaporation sources, and other PVD applications. We served the Research and Development market as well as the Industrial and Decorative Coating markets. During this time, we began to manufacture targets for the photovoltaic, flat panel display, and semiconductor industries.

SCI and TMI were merged in 2002. We continued to manufacture complex ceramic, metal, and alloy products for the photonic, photovoltaic, media storage, flat panel display, and semiconductor industries. The Company’s name was changed to SCI Engineered Materials, Inc. from Superconductive Components, Inc. in 2007 to reflect its expanded market focus.

In January 2017, we received ISO 9001:2015 registration, an internationally recognized quality standard. We received ISO 9001:2008 registration in April 2010 and prior to that time we were ISO 9001:2000 registered.

For more than three decades we have been developing considerable expertise in the development and manufacturing ramp-up of innovative materials, such as Transparent Conductive Oxides (TCOs). The Company is implementing a long-term growth strategy which includes pursuing opportunities that can benefit from this expertise. Today, we serve a diverse base of domestic and multi-national corporations, universities, and leading research institutions. We actively collaborate with organizations to provide solutions for difficult material challenges.

Business

We are a supplier of materials to the PVD industry. Customers need our materials to produce nano layers of metals and oxides for advanced material systems. Applications for PVD coatings range from everyday items to complex computer processors. Every day applications include automotive, transparent anti-scratch coatings on eyeglasses, coatings on kitchen faucets, as well as low emissivity glass for household windows and commercial buildings. More technically advanced applications include aerospace, defense, flat panel display, photonics, semiconductors, and thin film solar products.

We are pursuing niche opportunities where our core competencies give us an advantage and complement our manufacturing capabilities allowing us to enter new markets with minimal capital investment. This disciplined approach enables us to focus on those opportunities that are the best fit for our capabilities and offer the greatest long-term return. Considerations include our core strengths, resource requirements, and time-to-market.

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The Photonics industry includes a number of diverse markets which represents the best fit for our applications. We and our customers are continually identifying new materials that improve the utility of optical coatings. This includes improvements in their ability to focus, filter or reflect light, all of which increase the potential demand for the types and volume of products we sell in this market. Photonic applications continue to expand as new methods are found to manipulate light waves to enhance the various applications.

We continue to invest in developing new products for SCI's chosen markets with emphasis on accelerating time to market.

For the year ended December 31, 2023, we had total revenue of \$27,984,083 compared to \$23,467,030 for the year ended December 31, 2022. Higher volume was the key factor that contributed to the increase.

Our largest customer represented approximately 78% of total revenues in 2023 and 73% in 2022. This year-over-year increase was attributable to higher volume including additional products.

Marketing and Sales

Europe and Asia, as well as the Americas, have high demand for sputtering targets. We continue to seek ways to expand our global marketing reach. We use various distribution channels for specific end markets through direct sales by our employees. The internet provides tremendous opportunities for us to reach new customers with compatible product needs.

Our corporate website is www.sciengineeredmaterials.com. The website is designed to serve customers, suppliers, and investors with additional information in an easy-to-use format and includes expanded mobile access. There are also social media platforms, including Facebook®, and Twitter® as well as online marketing campaigns on LinkedIn®, to enhance the Company's visibility and communication with customers and shareholders. For customers and suppliers, there is also expanded information about our product focus as well as a library of detailed product data sheets that continues to be updated. Investors can access current and archived information about the Company utilizing multiple electronic platforms.

Ceramics

We are capable of producing ceramic powders via several different processing techniques including solid state and precipitation. Ceramic targets can also be produced in a variety of ways depending on the end user applications. Production techniques include sintering, cold isostatic pressing and hot pressing.

Most of our products are manufactured from component chemicals and metal oxides supplied by various vendors. We have also identified several suppliers that are capable of minimizing potential disruption in our business.

Metals

We also produce metal sputtering targets and backing plates. The targets are often bonded to the backing plates for applications in the PVD industry. These targets can be produced by casting, hot pressing and machining of metals and metal alloys depending on the application.

Applications for metal targets are highly varied ranging from applying decorative coatings for end uses such as sink faucets to the production of various electronic, photonic and semiconductor products.

We purchase various metals of high purity (often above 99.9%) for our applications. We are not dependent on a sole source for these metals and do not believe losing a vendor would materially affect our business.

We have made frequent additions to our manufacturing footprint, enhanced production processes, increased manufacturing efficiencies and testing equipment capabilities to enable us to manufacture and qualify many product compositions that can be used as PVD applications by end users and Original Equipment Manufacturers.

Competition

We have several domestic and international competitors in the ceramic and metal fields, including Vacuum Engineering & Materials, Process Materials, Inc., and Materion, who also supply targets.

Suppliers

Principal suppliers in 2023 were Johnson Matthey, Atlantic Metals, and Six Nine Metals. In every case, we have established alternate vendors that can be used to ensure availability of required materials. As volume grows, we may enter into alliances or purchasing contracts with these or other vendors.

Research and Development

We continue to invest in developing new applications for our markets including electrically conductive Zinc Tin Oxide for Solar, Architectural Glass, and Thin-Film Transistors. Specialty materials are being researched for use in niche markets such as 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. We are developing sputtering targets for transparent electronic applications, which could be used to produce transparent thin film transistors via PVD processing.

We may seek funded research opportunities within our core competencies that maintain and expand technical understanding within our company.

We have certain proprietary knowledge and trade secrets related to the manufacture of metal and metal oxide PVD materials. This includes specific patents directly related to our products and market focus (see Intellectual Property section).

New Product Initiatives

We are committed to increasing our core competencies in growth areas through development of innovative applications, continuing to pursue stronger customer relationships, and entry into compatible niche markets.

Building on more than three decades of materials science expertise, we have developed several new applications for select markets. For example, we recently achieved commercial success with an electrically conductive Molybdenum Oxide material that led to initial development of a commercially feasible rotary target with similar properties. Molybdenum Oxide is used in photovoltaic and optoelectronic markets which value rotary target geometry in their commercial processes. We have a patent pending on our high-power density bond process which has been initially well received by customers in the aerospace industry.

In 2018, we began to supply target materials to the roll-to-roll coating industry. Roll-to-roll PVD coating is an emerging market in which intermediate manufacturers use our advanced materials to coat flexible substrates for a wide range of applications. In a roll-to-roll coating system, multiple layers of varied materials can be deposited over large areas on flexible substrates without costly down time associated with disrupting the vacuum manufacturing process. These coated substrates can be used as standalone products in high volume consumer goods or can be laminated into electronic and optical components such as solar panels, architectural glass and displays. Our rotatable bonding technology, compounded with our material development capabilities, position us well in this emerging market for potential growth.

Utilizing our expertise in Vacuum Hot Pressing we are exploring additional defense applications for domestically manufactured Boron Carbide Armor. This same formulation also has potential use in controlling fuel rods in nuclear reactors as well as radiation protection. We are also exploring material applications, such as tungsten and molybdenum, in multiple manufacturing areas that can capitalize on our expertise and industry relationships.

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

Our research and development team includes a Ph.D. with a degree in Material Science. This knowledge base benefits our achievement of innovative product solutions and new applications through collaboration with customers, which requires a deeper understanding beyond material properties. Our team provides knowledge in the areas of optical and electrical properties for these applications.

Intellectual Property

Our patent titled “High Efficiency Rotatable Sputter Target” (US Patent No.11,830,712 B2) was issued on November 28, 2023. This patent protects a bonding process that achieves a superior bond for rotatable targets.

Our patent titled “Process for the Removal of Contaminants from Sputtering Target Substrates” (US Patent No. 10,138,545 B2) was issued on November 27, 2018. This provides a process for the removal of contaminants on a spent sputtering target used in Plasma Vapor Deposition.

We have the rights to multiple patents for technology related to the application of Zinc Oxide based Transparent Conductive Oxide in Displays. Our patent titled “Display Having a Transparent Conductive Oxide Layer Comprising Metal Doped Zinc Oxide Applied by Sputtering” (US patent No. 9,927,667) was issued on March 27, 2018; a related patent having the same title was issued on April 7, 2020 (US Patent No. 10,613,397), and we have a corresponding patent issued in Sweden. The transparent conductive oxides (TCOs) we developed in these patents have excellent electro-optical performance, high transmittance, high conductivity, and good chemical resistance. These patents have various applications that include LCDs, micro-LED, OLED, smart windows and mirrors, AR/VR goggles, e-papers, and wearable electronics. Our clients, in relevant applications, are entitled to use the patent number when referring to the devices covered by the patent and benefit from it. We believe the TCOs claimed and protected in these patents have wide and innovative applications which can put SCI in a unique position in the market as well as bring us additional business opportunities.

During 2016 we were granted a federal trademark registration for “SCI Engineered Materials”. We have additional rights in common law trademarks and services marks, as well as in our branding properties, including our blue logo.

We rely on a combination of patent and trademark law, license agreements, internal procedures, and nondisclosure agreements to protect our intellectual property; however, it should be noted that these measures may be invalidated, circumvented, or challenged. In addition, the laws of some foreign countries in which our products may be produced or sold may not protect our intellectual property rights to the same extent as the laws of the United States.

In the future, we may submit additional patent applications covering various inventions which have been developed by us. However, we cannot be guaranteed that these submissions will result in the issuance of patent. For example, the publication of U.S. patent applications can be delayed for up to one year, and tend to lag actual discoveries, and so that we may not be the first creator of inventions covered by pending patent applications or the first to file patent applications for such inventions. Additionally, other parties may independently develop similar technologies, duplicate our technologies or, if patents are issued to us or rights licensed by us, they may design around the patented aspects of any technologies we have developed or licensed.

Employees

We had 23 and 21 full-time employees as of December 31, 2023, and 2022, respectively. One of these employees holds a PhD in Material Science. We have never experienced a work stoppage and consider our relations with employees to be good. The employees do not have a bargaining unit. We are committed to continuing to provide an open and accountable workplace where employees feel empowered to speak up and raise issues. With this in mind, we provide multiple channels to communicate, ask for guidance, and report concerns. We also provide employees with paid time off to volunteer in local communities. We are committed to creating value for our communities including volunteerism and advocacy, and by operating our business in a socially and environmentally responsible way.

Environmental Matters

We handle all materials according to federal, state, and local environmental regulations and include Safety Data Sheets (SDS) with all shipments to customers. We maintain a collection of SDS sheets for all raw materials used in the manufacture of products and maintenance of equipment and ensure that all personnel follow the handling instructions contained in the SDS for each material. We contract with a reputable, fully permitted hazardous waste disposal company to dispose of the small amount of hazardous waste generated.

Collections and Write-offs

We collected receivables in an average of 45 days in 2023. We have occasionally written-off negligible amounts of accounts receivable as uncollectible and there were none in 2023 and 2022. We consider credit management critical to our success.

Seasonal Trends

We have not experienced and do not expect to experience seasonal trends in future business operations.

ITEM 1A. RISK FACTORS

We operate in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. Certain factors may have a material adverse effect on our business, prospects, financial condition, and results of operations, and you should carefully consider them. Accordingly, in evaluating our business, we encourage you to consider the following discussion of risk factors, in its entirety, in addition to other information contained in this Annual Report on Form 10-K and our other public filings with the Securities and Exchange Commission (the "SEC"). Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition, and results of operations.

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The following factors have affected or could affect actual results and could cause such results to differ materially from those expressed in any forward-looking statements made. Investors should consider the following risks and speculative factors inherent in and affecting the business of SCI and an investment in our common stock.

Risks Relating to the Company.

We have had operating losses in the past and may incur losses in the future.

Prior to 2017, the Company frequently reported annual net losses. Our results for 2023 reflect the seventh consecutive year of net income; however, while assurances cannot be provided that we will be able to operate profitably in the future, management continuously monitors business conditions and responds through proactive actions. We continue to invest in developing new products for all our markets. These efforts include accelerating time to market for those products and involve ongoing research and development expense.

During 2023 we reduced our accumulated deficit by \$2,188,899 to \$1,915,694 at December 31, 2023. Management's plans include continuing to grow our business in current and additional niche markets, developing new products, and increasing our revenue and presence in those markets. Management believes the actions that began during the last several years and continue today provide the opportunity for maintaining and improving liquidity and profitability. However, no assurances are made that such actions will result in sustained profitability.

A substantial portion of our sales has been dependent upon certain principal customers, the loss of whom could materially negatively affect the Company's total sales.

Revenue attributable to these customers includes the sale of multiple applications. Our top two customers accounted for approximately 89.9% of our net sales for the fiscal year ended December 31, 2023. Although they have been major customers of the Company for nearly twenty years, we do not have written agreements with these customers that require any minimum purchase obligations, and the customers could stop buying the Company's products at any time and for any reason. A reduction, delay, or cancellation of orders from these customers or the loss of these customers could significantly reduce our future revenues and profits.

We cannot provide assurance that these customers or any of our other current customers will continue to place orders, that orders by existing customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

We have limited marketing and sales capabilities outside North America.

We continue to develop our marketing and sales capabilities through targeted marketing, sales, technical, customer service and distribution capabilities. This includes increased participation in industry specific trade shows which attract representatives from domestic and international companies. We may enter into agreements with third parties to also provide these services to successfully market our products outside North America.

Our success depends on our ability to retain key management personnel.

Our success depends in large part on our ability to attract and retain highly qualified management, administrative, manufacturing, sales, and research and development personnel. Due to the specialized nature of our business, it may be difficult to locate and hire qualified personnel. The loss of services of one of our executive officers or other key personnel, or our failure to attract and retain other executive officers or key personnel could have a material adverse effect on our business, operating results, and financial condition. Jeremy Young was named president and chief executive officer in 2019 and has an employment agreement with the Company that contains non-competition provisions as well as severance payments. Mr. Young has been with the Company for more than eighteen years. All other key management personnel have entered into non-competition agreements with the Company. Although we have been successful in planning for and retaining highly capable and qualified successor management in the past, there can be no assurance that we will be able to do so in the future.

Competition for employees is intense, and we may not be able to attract and retain the qualified and skilled employees needed to support our business.

We believe a key portion of future success depends on the efforts and talent of our employees, including technical and skilled mechanical personnel. This will be dependent on continuing to attract, develop, motivate, and retain qualified and skilled employees. Competition for highly skilled technical, risk management and financial personnel is expected to remain intense. We may not be able to hire and retain qualified personnel at compensation levels consistent with our compensation and salary structure. Some of the companies with which we compete for experienced employees may have greater resources than we have and may be able to offer more attractive terms of employment.

We invest considerable time and expense in training our employees and we continue to implement new employee retention strategies. If we fail to retain our employees, we could incur significant expenses in hiring and training new employees, and the quality of our services and our ability to serve our customers could decline, resulting in a material adverse effect to our business.

Changes in the strategies of key trade customers may adversely affect our business.

Our products are sold in a highly competitive global marketplace which continues to experience increased concentration. We may be negatively affected by changes in the strategies of our trade customers, such as inventory de-stocking, delisting of our products, and other conditions.

Changes in global economic conditions could adversely affect our business.

The Company continues to actively monitor and respond to changes in national and global economic conditions, which include, but are not limited to, inflation, supply chain disruptions, and a global semiconductor chip shortage. Changes in these conditions could impact implementation of our growth plans and access to capital markets. 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. Customer demand and supply-related issues could result in increased operating, transportation and shipping, material, wages, and labor costs. An economic recession (of whatever scale) has the potential to change customer purchasing patterns which could negatively impact our revenue and profitability.

Global conflicts could have impact on raw materials which could negatively impact our business.

Political uncertainties could affect global markets and thus could have a negative effect on our business. Although we currently have no customers or suppliers in Russia or Ukraine, we continue to monitor the situation as some raw materials come from Russia for the PVD industry. We have a customer in Israel; however, revenue related to these sales is negligible to our total revenue for the years 2023 and 2022, respectively. We continue to actively monitor these developments, including ongoing contact with suppliers and customers, identifying additional suppliers, and adapting to our customer's specific circumstances and forecasts. In addition, 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.

Our property is subject to risks from natural disasters such as earthquakes and severe weather, and other potential risks associated with the effects of climate change.

Our manufacturing facility may suffer harm as a result of natural or man-made disasters such as storms, earthquakes, tornadoes, floods, fires, and other extreme weather conditions. Such events could disrupt our operations, harm our employees, or severely damage or destroy manufacturing equipment. Any combination of these factors could adversely impact our business, reputation, and financial performance in ways that cannot currently be predicted.

Public health epidemics or outbreaks could adversely impact our business.

In December 2019, a novel strain of coronavirus (COVID-19) emerged in China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it spread to other countries and infections were reported globally. The extent to which an epidemic may impact our operations is highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity, and the actions to contain the epidemic or treat its impact.

Our competitors may have greater financial and other resources than us.

The market for PVD materials is substantial with significant competition in both ceramic and metal materials. While we believe that our products enjoy certain competitive advantages in design, function, quality, and availability, considerable competition exists from well-established firms such as Vacuum Engineering & Materials, Process Materials, Inc., and Materion, all of which may have more financial resources than us. We cannot provide assurance that developments by others will not render our products or technologies obsolete or less competitive.

Additional development of our products may be necessary due to uncertainty regarding development of markets.

Some of our products are in the early stages of commercialization and we believe it will be several years before these products have significant commercial end-use applications, and significant development work may be necessary to improve the commercial feasibility and acceptance of these products. There can be no assurance that we will be able to commercialize any of the products currently under development.

A lack of credit and/or limited financing availability to the Company, its vendors, or end users could adversely affect our business.

The Company has a line of credit with Fifth Third Bank for \$1 million which expires on August 29, 2024. However, our liquidity and financial condition could be materially and adversely affected if our ability to borrow money from new or existing lenders to finance our operations is reduced or eliminated. Similar adverse effects may also result if we realize reduced credit availability from trade creditors. Additionally, many of our customers require availability of financing to facilitate the purchase of our products. As a result, a continuing period of reduced credit availability in the marketplace could have adverse effects on our business.

Our business requires us to make capital expenditures to maintain and improve our facilities.

Our facilities sometimes require capital expenditures to address ongoing required maintenance and upgrade our capabilities. In addition, we often are required to make significant capital expenditures to satisfy customer requirements and produce newly developed products.

Our business could be negatively impacted by cyber and other security threats or disruptions.

We face various cyber and other security threats, including attempts to gain unauthorized access to sensitive information and networks; employee threats; virtual and cyber threats to the safety of our directors, officers, and employees; threats to the security of our facilities and infrastructure; and threats from terrorist acts or other acts of aggression. Our customers and vendors face similar threats. Although we utilize internal and external independent controls to monitor and mitigate the risk of these threats, including a Security Incident Response Plan and periodic Information Technology training for all employees, there can be no assurance that these procedures and controls will be sufficient. Our security measures may also be breached due to employee error, malfeasance, system errors or vulnerabilities, or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information to gain access to our data or our user's or customer's data. These threats could lead to losses of sensitive information or capabilities, harm to personnel, infrastructure, or products, and/or damage to our reputation as well as our vendor's ability to perform on our contracts.

Cyber threats are evolving and include, but are not limited to, ransomware, malicious software, destructive malware, attempts to gain unauthorized access to data, disruption or denial of service attacks, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential, personal, or otherwise protected information (ours or that of our employees, customers, or vendors), and corruption of data, networks, or systems.

The impact of these factors is difficult to predict, but one or more of them could result in the loss of information or capabilities, harm to individuals or property, damage to our reputation, loss of business, regulatory actions, and potential liability, any of which could have a material adverse effect on our financial position, results of operations and/or cash flows.

Risks Related to Our Intellectual Property

Our patents and proprietary rights may not be enforceable.

We rely on a combination of patent and trademark law, license agreements, internal procedures, and nondisclosure agreements to protect our intellectual property. These may be invalidated, circumvented, or challenged. In addition, the laws of some foreign countries in which our products may be produced or sold may not protect our intellectual property rights to the same extent as the laws of the United States. Our failure to protect our patent and proprietary information could adversely affect us.

Rights we have to trademarks, patents and pending patent applications may be challenged.

We have a portfolio of intellectual property that includes common law and state rights, as well of federally and internationally recognized trademark and patent rights. In addition, we take active precautions to protect our trade secret rights through various contractual means. However, we recognize that third parties may challenge these rights, including through unauthorized use or misappropriation or theft, or by legal challenge in administrative proceedings or challenge in state or district court. Such challenges include the risks of long and costly litigation, as well as the potential loss of property rights and the assessment of damages against a losing party.

Risks relating to Intellectual Property.

Because U.S. patent applications are maintained in secret until patents are issued, and publications of discoveries in the scientific or patent literature tend to lag actual discoveries by several months, we may not be the first creator of inventions covered by issued patents or pending patent applications or the first to file patent applications for such inventions. Moreover, other parties may independently develop similar technologies, duplicate our technologies or, if patents are issued to us or rights licensed by us, design around the patented aspects of any technologies we developed or licensed. We may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of inventions, which could result in substantial costs. Litigation may also be necessary to enforce any patents held by or issued to us or to determine the scope and validity of others' proprietary rights, which could result in substantial costs.

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

To protect our proprietary and licensed technology and processes, we rely in part on confidentiality agreements with our corporate partners, employees, consultants, manufacturers, outside scientific collaborators and sponsored researchers and other advisors. These agreements may not effectively prevent disclosure of our confidential information and may not provide an adequate remedy in

the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information. Failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

The rapid technological changes of our industry may adversely affect us if we do not keep pace with advancing technology.

The PVD market is characterized by rapidly advancing technology coupled with long and uncertain paths to large market acceptance. Our success depends on our ability to keep pace with advancing technology and processes and industry standards. We have focused our development efforts on sputtering targets. We intend to continue to develop innovative materials and integrate those advances to the thin film coatings industry and other potential industries. However, our development efforts may be rendered obsolete by research efforts and technological advances made by others or by the failure of anticipated markets to emerge, and materials other than those we currently use may prove more advantageous.

Risks Related to Our Common Stock

Our Articles of Incorporation authorize us to issue additional shares of stock.

The Company is authorized to issue up to 15,000,000 shares of common stock. The Board of Directors may approve the issuance of common stock as they consider sufficient without seeking shareholder approval. As of December 31, 2023, we had 4,530,207 shares outstanding and 41,304 shares underlying options that are currently exercisable resulting in 10,428,489 shares of common stock available for issue. The issuance of additional shares of common stock in the future may reduce the proportionate ownership and voting power of current shareholders.

Our Articles of Incorporation authorize us to issue up to 260,000 shares of preferred stock. The issuance of preferred stock in the future could create additional securities which would have dividend and liquidation preferences prior to the outstanding shares of common stock. These provisions could also impede a non-negotiated change in control. As of December 31, 2023 there were no preferred shares outstanding.

We have not paid dividends on our common stock in the past and do not expect to do so in the foreseeable future.

We have never declared or paid cash dividends on our shares of common stock and do not expect to do so in the foreseeable future. We intend to use future earnings for the growth of our business. As a result, investors must rely on sales of the common stock after price appreciation, which may not occur, as the best way to realize future gains on their investments.

Provisions in our Articles of Incorporation and Code of Regulations provide for indemnification of officers and directors which could require us to divert funds away from our business and operations.

Our Articles of Incorporation and Code of Regulations provide for the indemnification of our officers and directors. We may be required to advance costs incurred by an officer or director to pay judgments, fines and expenses incurred by an officer or director, including reasonable attorneys' fees, as a result of actions or proceedings in which our officers and directors are involved by reason being or having been an officer or director of our company. Funds paid in satisfaction of judgments, fines, and expenses may be funds we need for operation and growth of our business.

Takeover defense provisions in Ohio law and our corporate governance documents may delay or prevent takeover attempts preventing our shareholders from realizing a premium on their stock.

Various provisions of Ohio corporation laws as well as our corporate governance documents may inhibit changes in control not approved by our Board of Directors and may have the effect of depriving our investors of an opportunity to receive a premium over the prevailing market price of our common stock in the event of an attempted hostile takeover. In addition, the existence of these provisions may adversely affect the market price of our common stock. These provisions include:

- A requirement that a special meeting of the shareholders must be called by our Board of Directors, Chairperson, the President, or the holders of shares with voting powers of at least fifty percent (50%).
- Advanced notice requirements for shareholder proposals and nominations.
- The availability of "blank check preferred stock."

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Our Board of Directors can use these and other provisions to prevent, delay or discourage a change in control of the company or a change in our management. Any such delay or prevention of a change in control of management could deter potential acquirers or prevent the completion of a takeover transaction to which our shareholders could receive a substantial premium over the current market price of our common stock, which may in turn limit the price investors might be willing to pay for our common stock.

The market for our common stock is limited, and as such our shareholders may have difficulty reselling their shares when desired or at attractive market prices.

Our stock price, trading volume, and market listing may make it more difficult for our shareholders to resell shares when desired or at attractive prices. In 2001, our stock began trading on The Over-the-Counter Bulletin Board, now known as the OTC Markets. Our common stock trades in low volumes and at low prices. Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks. This has the effect of limiting the pool of potential purchasers of our common stock at present price levels. Shareholders may find greater percentage spreads between bid and asked prices, and more difficulty in completing transactions and higher transaction costs when buying or selling our common stock than they would if our stock were listed on a major stock exchange.

Our common stock has been subject to the Securities and Exchange Commission's "penny stock" regulations, which may limit the liquidity of common stock held by our shareholders.

Our common stock currently trades on the OTC Markets' OTCQB market under the symbol "SCIA". Based on a trading price typically below \$5 per share, our common stock is considered a "penny stock" for purposes of federal securities laws, and therefore has been subject to regulations, which affected the ability of broker-dealers to sell our securities. Broker-dealers who recommend a "penny stock" to persons (other than established customers and accredited investors) must make a special written suitability determination and receive the purchaser's written agreement to a transaction prior to sale.

If penny stock regulations apply to our common stock, it may be difficult to trade the stock because compliance with the regulations can delay and/or preclude certain trading transactions. Broker-dealers may be discouraged from effecting transactions in common stock because of the sales practice and disclosure requirements for penny stock. This could adversely affect the liquidity and/or price of our common stock and impede the sale of the common stock in the secondary market.

Risks Related to Government Regulation

We are subject to anti-corruption laws in the jurisdictions in which we may operate, including anti-corruption laws of China and the Federal Corrupt Practices Act (FCPA). Our failure to comply with these laws could result in penalties which could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anticorruption laws. Although we continue to monitor policies and procedures designed to ensure that we, our employees, distributors and other intermediaries comply with the FCPA and other anti-corruption laws to which we are subject, there is no assurance that such policies or procedures will work effectively all of the time or protect us against liability under the FCPA or other laws for actions taken by our employees, distributors and other intermediaries with respect to our business or any businesses that we may acquire. If we are not in compliance with the FCPA and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Any investigation of any potential violations of the FCPA or other anticorruption laws by U.S. or foreign authorities could have an adverse impact on our business, financial condition, and results of operations.

Environmental compliance costs and liabilities associated with our facility may have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to various federal, state, and local environmental and health and safety laws and regulations with respect to our operations. These laws and regulations address various matters, including asbestos, fuel oil management, wastewater discharges, air emissions, and hazardous wastes. The costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. For example, with respect to leased property, we may be held liable for costs relating to the investigation and cleanup of our leased property from which there has been a release or threatened release of a regulated material as well as other properties affected by the release. In addition to these costs, which are typically not limited by law or regulation and could exceed the property's value, we could be liable for certain other costs, including, without limitation, governmental fines, and injuries to persons, property, or natural resources. Further, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. While we are not aware of any potential environmental problems, no assurances are made that such problems and costs associated with them will not arise in the future. If any of our properties were found to violate environmental laws, we may be required to expend significant amounts of time and money to rehabilitate the property, and we may be subject to significant liability. Any environmental compliance costs and liabilities incurred may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The increasing costs of being a public company may strain our resources and impact our business, financial condition, and results of operations.

As a public company, we are subject to reporting requirements of the Securities Exchange Act of 1934, as amended or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes Oxley Act and the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. The Exchange Act requires that we file annual, quarterly, and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls for financial reporting. We are required to document and test our internal control procedures to satisfy the requirements of Section 404(b) of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting. The Dodd-Frank Act requires us to audit our supply chain and report conflict minerals usage.

These requirements may place a strain on our systems and resources in the future and may require us to hire additional accounting and financial staff with the appropriate public company experience and technical accounting knowledge. In addition, the failure to maintain such internal controls could result in us being unable to provide timely and reliable financial information which could potentially subject us to sanctions or investigations by the Securities and Exchange Commission or events could have an adverse effect on our business, financial condition, or results of operations. Although we have taken steps to maintain our internal control structure as required by the Exchange Act and the Sarbanes-Oxley Act, we cannot provide any assurances that control deficiencies will not occur in the future.

Regulation from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") could adversely affect our business or financial results.

Changes in regulatory requirements, such as the reporting requirements relating to conflict minerals originating in the Democratic Republic of Congo or adjoining countries included in the Dodd-Frank Act, or evolving interpretations of existing regulatory requirements, may result in increased compliance cost, capital expenditures and other financial obligations that could adversely affect our business or financial results. We conducted an analysis of our products and found that the above SEC defined "conflict minerals", which are tantalum, tin, tungsten, and gold (3TG), can be found in our products. Therefore, the products that we manufacture are subject to the reporting obligations of Rule 13p-1.

Despite having conducted a good faith reasonable country of origin inquiry, we concluded that our supply chain remains "DRC conflict undeterminable". We have reached this conclusion because we have been unable to determine the origin of the 3TG used. We will continue to work with our suppliers. Should the regulations or our analysis change, it could impact the sourcing of materials that we use to manufacture our products.

If significant tariffs or other restrictions are placed on imports or any related countermeasures are taken by other countries, our revenue and results of operations may be materially harmed.

Import tariffs and/or other mandates imposed by sovereign governments could potentially lead to a trade war with other foreign governments and could significantly increase the prices on raw materials that are critical to our business. We could be forced to increase prices to our customers or, if unable to do so, result in lowering our gross margin on products sold.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 1C. CYBERSECURITY.

While we have never had a material cybersecurity incident that impacted our operations, we face various cyber and other security threats, including attempts to gain unauthorized access to sensitive information and networks; employee threats; virtual and cyber threats to our directors, officers, and employees; threats to the security of our facilities and infrastructure; and threats from terrorist acts or other acts of aggression. Our customers and vendors face similar threats. We utilize internal and external independent controls to monitor and mitigate the risk of these threats, including an outside independent Cybersecurity consultant, a Security Incident Response Plan (SIRP) and periodic Information Technology training for all employees.

Our SIRP is outlined as follows:

1. **Preparation**—perform a risk assessment, identify sensitive assets, and build a Computer Security Incident Response Team (CSIRT). Our team includes an outside IT Cybersecurity consultant that provides managed services on a regular basis.
2. **Identification**—monitor IT systems and detect deviations from normal operations and see if they represent actual security incidents. When an incident is discovered, collect additional evidence, establish its type and severity, and document everything.
3. **Containment**—perform short-term containment, for example by isolating the network segment that is under attack. Then focus on long-term containment, which involves temporary fixes to allow systems to be used in production, while rebuilding clean systems.
4. **Eradication**—remove malware from all affected systems, identify the root cause of the attack, and take action to prevent similar attacks in the future.
5. **Recovery**—bring affected production systems back online carefully, to prevent additional attacks. Test, verify and monitor affected systems to ensure they are back to normal activity.
6. **Lessons learned**—no later than two weeks from the end of the incident, perform a retrospective of the incident. Prepare complete documentation of the incident, investigate the incident further, understand what was done to contain it and whether anything in the incident response process could be improved.

The impact of potential cybersecurity threats is difficult to predict, but one or more of them could result in the loss of information or capabilities, harm to individuals or property, damage to our reputation, loss of business, regulatory actions, and potential liability, any of which could have a material adverse effect on our financial position, results of operations and/or cash flows. These threats could lead to losses of sensitive information or capabilities, harm to personnel, infrastructure, or products, and/or damage to our reputation as well as our vendor's ability to perform on our contracts.

Effective incident response involves every part of our organization, including IT teams, legal, technical support, human resources, corporate communications, and business operations. Our Board of Directors oversees all business, property and affairs of the Company, including cybersecurity risks. Our management keep the members of the Board informed of our business through discussions at Board meetings and by providing them with reports and other materials throughout the year.

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Our CSIRT includes our independent outside cybersecurity consultant as our strategic lead and the consultant and Chief Financial Officer (CFO) lead the Incident Response Team. Our consultant is certified in cybersecurity and our CFO has overseen our IT for over twenty years.

ITEM 2. PROPERTIES.

Our office and manufacturing facilities are located at 2839 Charter Street, Columbus, Ohio, where we occupy approximately 32,000 square feet. We moved our operations into this facility in 2004. The lease on the property expires on November 30, 2024 and we expect to begin negotiations to renew the lease during the first quarter of 2024.

We are current on all operating lease liabilities.

ITEM 3. LEGAL PROCEEDINGS.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Common Stock

Our common stock currently trades on the OTC Markets' OTCQB market under the symbol "SCIA".

Based on its historical trading price, our common stock is considered a "penny stock" for purposes of federal securities laws, and therefore has been subject to certain regulations. See "Risk Factors" for specific disclosures concerning the market for the Company's common stock.

Holders of Record

As of December 31, 2023, there were approximately 210 registered holders of record of our common stock and 4,530,207 shares issued and outstanding.

Dividends

We have never paid cash dividends on our common stock and do not expect to pay any dividends on our common stock in the foreseeable future. We intend to use our future earnings for the growth of the business.

Equity Compensation Plan Information

The following table sets forth additional information as of December 31, 2023, concerning shares of our common stock that may be issued upon the exercise of options and rights under our existing equity compensation plans and arrangements approved by our shareholders which include our 2011 Stock Option Plan and 2006 Stock Option Plan. The information includes the number of shares covered by and the weighted average exercise price of, outstanding options and other rights, and the number of shares remaining available for future grants (excluding the shares to be issued upon exercise of outstanding options and other rights).

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	Number of Securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans	41,304	\$ 1.05	215,285

ITEM 6. RESERVED.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Executive Summary

For the year ended December 31, 2023, we had total revenue of \$27,984,083 compared to \$23,467,030 for the year ended December 31, 2022. Higher volume was the key factor that contributed to the increase.

Gross profit was \$5,251,633 for 2023 compared to \$4,786,955 for 2022. The increase was attributable to higher revenue as well as favorable product mix.

Operating expenses were \$2,757,385 and \$2,306,737 for 2023 and 2022, respectively.

Income from operations was \$2,494,248 and \$2,480,218 for 2023 and 2022, respectively

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

New initiatives are also being pursued that utilize our vacuum hot presses, cold isostatic press, and kilns for increased production and development projects, including diffusion bonding. We recently manufactured and sold conductive metal oxides for direct current sputtering of Tungsten Oxide and Molybdenum Oxide materials. We continue to invest in developing new products for all our markets including specialty bonding processes for Aerospace customers. Those products involve research and development expense to accelerate time to market.

Several issues continue to affect national and global market conditions. First, inflation continues to impact labor, raw material costs and transportation expenses. We seek to pass 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 sourcing of raw materials or 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, Ukraine or the Middle East, we continue to monitor the situations as some raw material comes from Russia for the PVD industry. We are actively maintaining contact with our suppliers and customers, identifying additional suppliers and adapting to our customers' specific circumstances and forecasts.

RESULTS OF OPERATIONS

Year 2023 compared to Year 2022

Revenue

For the year ended December 31, 2023, we had total revenue of \$27,984,083, compared to \$23,467,030 for the year ended December 31, 2022. This was an increase of \$4,517,053 or 19.2%. Higher volume was the key factor that contributed to the increase.

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Gross profit

Gross profit was \$5,251,633 for 2023 compared to \$4,786,955 for 2022. The increase was primarily attributable to higher revenue. Gross profit as a percentage of revenue (gross margin) was 18.8% and 20.4% for 2023 and 2022, respectively. The lower gross margin in 2023 compared to a year ago was due to increased shipments of lower margin product.

General and administrative expense

General and administrative expense for 2023 and 2022, was \$1,771,263 and \$1,549,696, respectively, an increase of 14.3%. During 2023 there was an increase in compensation of \$138,274, professional services of \$44,096 which included higher IT services of \$31,588, and additional investment credit reserve of \$10,000.

Research and development expense

Research and development expense for 2023 was \$501,937, compared to \$375,728 for 2022, an increase of 33.6%. This increase was attributed to increases in outside consulting expense of \$64,656, compensation of \$38,425 and materials and supplies of \$12,506. During 2023 the Company initiated sales of certain conductive metal oxides. Specialty materials are being researched for use in niche markets which include custom applications and additive manufacturing. Our development efforts utilize a disciplined innovation approach focused on accelerating time to market for these applications and involve ongoing research and development expense.

Marketing and sales expense

Marketing and sales expense was \$484,185 and \$381,313, during 2023 and 2022, respectively. This was an increase of \$102,872, or 27.0%. During 2023 there was an increase in compensation related to additional staff, and travel expenses of \$76,207, and \$20,578, respectively. We exhibited at additional international photonics trades shows focused on specific niche markets during 2023.

Stock compensation expense

Included in total expenses were non-cash stock-based compensation costs of \$45,485 and \$49,321 for 2023 and 2022, respectively. During 2022, the non-employee board members received compensation of 8,755 shares of common stock of the Company with an aggregate value of \$29,967 that was recorded as non-cash stock compensation expense in the financial statements. During 2023, non-employee board members received their entire compensation in cash. 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 December 31, 2023.

Interest

Interest income, net was \$286,361 and \$19,201 for the years ended December 31, 2023 and 2022, respectively. The increase was primarily due to higher cash and approximately \$2.0 million of investments in marketable securities, initially invested in the fourth quarter of 2022, which particularly benefited from an overall increase in interest rates in 2023. Interest expense related to finance lease obligations was \$4,309 for 2023 versus \$8,600 in 2022.

Income taxes

Income tax expense was \$586,710 and \$542,395 for the twelve months ended December 31, 2023 and 2022, respectively. The effective tax rate was 21.1% for 2023 compared to 21.7% for 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 \$69,846 at December 31, 2023.

Net income

Net income for 2023 and 2022 was \$2,193,899 and \$1,957,024, respectively. Higher revenue and gross profit were partially offset by higher operating expenses and income taxes.

Liquidity and Capital Resources

Cash

As of December 31, 2023, cash on hand was \$5,673,994 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 December 31, 2023, working capital was \$7,633,016 compared to \$5,211,625 at December 31, 2022, an increase of \$2,421,391 or 46.5%. The increase was primarily due to the increase in cash noted above.

Cash from operations

Net cash provided by operating activities during 2023 was \$2,281,279 and \$2,398,155 during 2022. In addition to the net income generated, this included depreciation and amortization of \$469,790 and \$429,805, and noncash stock-based compensation costs of \$45,485 and \$49,321 for the twelve months ended December 31, 2023, and 2022, respectively. The increase in prepaid purchase orders and expenses was primarily related to inventory paid for in December 2023 and received in January 2024. Inventories, prepaid purchase orders and customer deposits increased due to orders received during the fourth quarter 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 \$453,671 and \$536,313 was used in investing activities during the twelve months ended December 31, 2023, and 2022, respectively, for the acquisition of production equipment. This included the enclosure of our ceramic machining area in 2023 and a vacuum hot press in 2022. During 2022 we purchased marketable securities in the amount of \$1,989,265 based on available free cash flow and our desire to earn higher returns.

Cash from financing activities

Cash of \$97,367 and \$96,702 was used in financing activities for principal payments to third parties for finance lease obligations during 2023 and 2022, respectively.

Debt outstanding

Total debt outstanding of \$49,149 was all related to a current finance lease obligation at December 31, 2023, which matures in August 2024. This is a decrease of 66.5% from total debt outstanding of \$146,516 at December 31, 2022.

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 the Annual Report on Form 10-K for the year ended December 31, 2023, describes the significant accounting policies and methods used in the preparation of the Financial Statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts and current expected credit losses, inventory allowances, property and equipment depreciable lives, patents and license 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 expected collectability of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than our expected losses, our estimates of the recoverability of amounts due us could be adversely affected. The current expected credit losses on our investments is a derived default study based on the debt obligations. 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

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allowances and our gross profit 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 provide benefit. 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.

Inflation

While there was not a significant impact from inflation on our operations prior to 2022, we experienced increased costs during 2022 and 2023 that are expected to continue into 2024.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our balance sheets as of December 31, 2023, and 2022, and the related statements of operations, shareholders' equity and cash flows for the years ended December 31, 2023, and 2022, together with the Report of Independent Registered Public Accounting Firm thereon appear beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. 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-15I 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

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(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 and meets with the Company's Independent Registered Public Accounting firm at least quarterly.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). We performed a review of our related procedures and controls and strengthened cross approval of various functions, including financial reporting and disclosure review controls by the Chief Financial Officer, to include the Chief Executive Officer and Audit Committee Chairperson where appropriate. We continue to report to the Audit Committee and the Board of Directors at least monthly (and more often as necessary). This reporting includes balance sheets, statements of operations, statements of cash flows, and other detail supporting these statements. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2023.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permits us to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-13(f) and 15d-15(f) under the Exchange Act) that occurred during the fourth quarter of the year ended December 31, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item is included under the captions, "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our proxy statement relating to our 2024 Annual Meeting of Shareholders scheduled to be held on June 13, 2024, and is incorporated herein by reference.

We have a Business Conduct Policy applicable to all employees of the Company. Additionally, the Chief Executive Officer ("CEO") and all senior financial officers, including the principal financial officer, the principal accounting officer or controller, or any person performing a similar function (collectively, the "Senior Financial Officers") are bound by the provisions of our code of ethics

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relating to ethical conduct, conflicts of interest, and compliance with the law. The code of ethics is posted on our website at <http://www.sciengineeredmaterials.com/corporate-governance>.

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any amendment to, waiver of, any provision of this code of ethics by posting such information on our website at the address and location specified above.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is included under the caption “**Executive Compensation**” in our Proxy Statement relating to our 2024 Annual Meeting of Shareholders scheduled to be held on June 13, 2024, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is included under the captions “**Ownership of Common Stock by Directors and Executive Officers**” and “**Ownership of Common Stock by Principal Shareholders**” in our Proxy Statement relating to our 2024 Annual Meeting of Shareholders scheduled to be held on June 13, 2024, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is included under the caption “**Certain Relationships and Related Transactions, and Director Independence**” in our Proxy Statement relating to our 2024 Annual Meeting of Shareholders scheduled to be held on June 13, 2024, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is included under the caption “**Fees of the Registered Independent Public Accounting Firm for the years ended December 31, 2023, and 2022**” in our Proxy Statement relating to our 2024 Annual Meeting of Shareholders scheduled to be held on June 13, 2024, and is incorporated herein by reference.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Exhibit Number	Exhibit Description
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).
4(c)	Form of Incentive Stock Option Agreement under the Superconductive Components, Inc. 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 19, 2006, filed June 23, 2006).
4(d)*	Description of Securities of the Company.
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).
23.1*	Consent of Independent Registered Public Accounting Firm.
24*	Power of Attorney.
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 February 9, 2024, entitled "SCI Engineered Materials, Inc., Reports 2023 Fourth Quarter and Full-Year Results".
101	The Company's Annual Report on Form 10-K for the year ended December 31, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets at December 31, 2023 and December 31, 2022 (ii) Statements of Operations for the years ended December 31 2023 and 2022, (iii) Statement of Changes in Equity for the years ended December 31, 2023 and December 2022, (iv) Statements of Cash Flows for the years ended December 31, 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 Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 9, 2024

SCI ENGINEERED MATERIALS, INC.

By: /s/ Jeremiah R. Young

Jeremiah R. Young, Director, and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 9th day of February 2024.

<i>Signature</i>	<i>Title</i>
<u>/s/ Jeremiah R. Young</u> Jeremiah R. Young	Director and Chief Executive Officer (principal executive officer)
<u>/s/ Gerald S. Blaskie</u> Gerald S. Blaskie	Vice President and Chief Financial Officer (principal financial and accounting officer)
<u>Laura F. Shunk*</u> Laura F. Shunk	Chairperson of the Board of Directors
<u>Edward W. Ungar*</u> Edward W. Ungar	Director
<u>John P. Gilliam*</u> John P. Gilliam	Director
<u>Emily Lu*</u> Emily Lu	Director
<u>Charles Wickersham*</u> Charles Wickersham	Director

*By: /s/ Jeremiah R. Young

Jeremiah R. Young, Attorney-in-Fact

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
SCI Engineered Materials, Inc.
Columbus, Ohio

Opinion on the Financial Statements

We have audited the accompanying balance sheets of SCI Engineered Materials, Inc. (the “Company”) as of December 31, 2023 and 2022, the related statements of income, shareholders’ equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ GBQ Partners, LLC

We have served as the Company's auditor since 2014.

Columbus, Ohio
February 9, 2024

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

BALANCE SHEETS

DECEMBER 31, 2023 AND 2022

ASSETS

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Current Assets		
Cash and cash equivalents	\$ 5,673,994	\$ 3,947,966
Investments - marketable securities, short term	1,000,000	989,265
Accounts receivable		
Trade, less allowance for doubtful accounts of \$15,000	854,501	842,647
Tax - Employee Retention Credit	40,539	40,539
Other	15,607	12,653
Inventories, net	4,654,398	2,177,917
Prepaid purchase orders	1,123,980	—
Prepaid expenses	214,458	136,134
Total current assets	<u>13,577,477</u>	<u>8,147,121</u>
Property and Equipment, at cost		
Machinery and equipment	8,677,446	8,584,871
Furniture and fixtures	129,476	142,471
Leasehold improvements	744,297	607,156
Construction in progress	52,097	28,708
	9,603,316	9,363,206
Less accumulated depreciation and amortization	<u>(7,359,310)</u>	<u>(7,101,573)</u>
Property and equipment, net	<u>2,244,006</u>	<u>2,261,633</u>
Other Assets		
Investments, net - marketable securities, long term	994,478	1,000,000
Right of use asset, net	592,170	185,072
Deferred tax asset	—	151,164
Other assets	78,289	85,138
Total other assets	<u>1,664,937</u>	<u>1,421,374</u>
TOTAL ASSETS	<u>\$ 17,486,420</u>	<u>\$ 11,830,128</u>

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

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS (continued)

DECEMBER 31, 2023 AND 2022

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>December 31,</u> 2023	<u>December 31,</u> 2022
Current Liabilities		
Finance lease obligations, current portion	\$ 49,149	\$ 97,367
Operating lease obligations, current portion	111,193	105,789
Accounts payable	385,489	514,512
Customer deposits	4,871,035	1,825,595
Accrued compensation	406,971	270,168
Accrued expenses and other	120,624	122,065
Total current liabilities	<u>5,944,461</u>	<u>2,935,496</u>
Finance lease obligations, net of current portion	—	49,149
Deferred tax liability	69,846	—
Operating lease obligations, net of current portion	492,080	99,834
Total liabilities	<u>6,506,387</u>	<u>3,084,479</u>
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	(1,915,694)	(4,104,593)
Total shareholders' equity	<u>10,980,033</u>	<u>8,745,649</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 17,486,420</u>	<u>\$ 11,830,128</u>

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

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Revenue	\$ 27,984,083	\$ 23,467,030
Cost of revenue	<u>22,732,450</u>	<u>18,680,075</u>
Gross profit	5,251,633	4,786,955
General and administrative expense	1,771,263	1,549,696
Research and development expense	501,937	375,728
Marketing and sales expense	<u>484,185</u>	<u>381,313</u>
Income from operations	2,494,248	2,480,218
Interest income, net	<u>286,361</u>	<u>19,201</u>
Income before provision for income taxes	2,780,609	2,499,419
Income tax expense	<u>586,710</u>	<u>542,395</u>
NET INCOME	<u>\$ 2,193,899</u>	<u>\$ 1,957,024</u>
Earnings per share - basic and diluted (Note 8)		
Income per common share		
Basic	\$ 0.48	\$ 0.43
Diluted	<u>\$ 0.48</u>	<u>\$ 0.43</u>
Weighted average shares outstanding		
Basic	4,528,948	4,515,002
Diluted	<u>4,559,786</u>	<u>4,542,891</u>

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

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance 12/31/2021	\$ 10,573,843	\$ 2,227,078	\$ (6,061,617)	\$ 6,739,304
Stock based compensation expense (Note 2J)	—	4,729	—	4,729
Common stock issued (Note 8)	44,592	—	—	44,592
Net income	—	—	1,957,024	1,957,024
Balance 12/31/2022	\$ 10,618,435	\$ 2,231,807	\$ (4,104,593)	\$ 8,745,649
Adoption of ASU 2016-13 (Note 2N)	—	—	(5,000)	(5,000)
Stock based compensation expense (Note 2J)	—	1,577	—	1,577
Common stock issued (Note 8)	43,908	—	—	43,908
Net income	—	—	2,193,899	2,193,899
Balance 12/31/2023	<u>\$ 10,662,343</u>	<u>\$ 2,233,384</u>	<u>\$ (1,915,694)</u>	<u>\$ 10,980,033</u>

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

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Year Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,193,899	\$ 1,957,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and accretion	465,333	425,391
Amortization of patents	4,457	4,414
Stock based compensation	45,485	49,321
Gain on disposal of equipment	(3,135)	(18,321)
Deferred taxes	221,010	512,656
Inventory reserve	(2,919)	(14,987)
Changes in operating assets and liabilities:		
Accounts receivable	(14,808)	(364,262)
Inventories	(2,473,562)	(1,089,711)
Prepaid purchase orders and expenses	(1,202,304)	542,223
Other assets	12,392	—
Accounts payable	(129,023)	264,129
Operating lease assets and liabilities, net	(9,448)	(8,066)
Accrued expenses and customer deposits	3,173,902	138,344
Net cash provided by operating activities	<u>2,281,279</u>	<u>2,398,155</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment	16,000	31,149
Purchases of marketable securities	(1,009,478)	(1,989,265)
Proceeds from maturities of marketable securities	989,265	—
Purchases of property and equipment	(453,671)	(536,313)
Net cash used in investing activities	<u>(457,884)</u>	<u>(2,494,429)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance lease obligations	(97,367)	(96,702)
Net cash used in financing activities	<u>(97,367)</u>	<u>(96,702)</u>
NET INCREASE (DECREASE) IN CASH	\$ 1,726,028	\$ (192,976)
CASH - Beginning of year	3,947,966	4,140,942
CASH - End of period	<u>\$ 5,673,994</u>	<u>\$ 3,947,966</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 4,309	\$ 8,600
Income taxes	442,906	24,935
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Increase in asset retirement obligation	6,900	6,900

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

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Business Organization and Purpose

SCI Engineered Materials, Inc. (“SCI”, “we” 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

A. Cash and cash equivalents - The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash.

B. Investments in marketable securities – The Company’s investments in marketable securities consist of corporate and government bonds and have been classified as held-to-maturity. The Company has the intent and ability to hold to maturity and the securities are reported at amortized cost. The Company considers those investments which will mature in the next twelve months, including interest receivable on long-term bonds, as current assets. The remaining investments are considered non-current assets which the Company intends to hold longer than twelve months. The Company periodically evaluates the investments for impairment.

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 December 31, 2023. Our allowance for credit losses was \$15,000 at December 31, 2023.

C. Fair Value of Financial Instruments - The estimated fair value of amounts reported in the financial statements have been determined using available market information and valuation methodologies, as applicable (see Note 11).

D. Concentrations of Credit Risk - The Company’s cash balances, which are at times more than federally insured levels, are maintained at a large regional bank and a multinational investment bank, and are continually monitored to minimize the risk of loss. The Company grants credit to most customers, who are varied in terms of size, geographic location, and financial strength. Customer balances are continually monitored to minimize the risk of loss.

The Company’s two largest customers accounted for 78% and 11% of total revenue in 2023. These two customers represented 72% of the accounts receivable trade balance at December 31, 2023, and the Company expects to collect all outstanding accounts receivable as of December 31, 2023, from these customers.

The Company’s two largest customers accounted for 73% and 15% of total revenue in 2022. These two customers represented 59% of the accounts receivable trade balance at December 31, 2022 and the

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Company subsequently collected all outstanding accounts receivable as of December 31, 2022 from these customers.

E. Accounts Receivable - The Company extends unsecured credit to customers under normal trade agreements which typically require payment within 30-60 days. The Company does not charge interest on delinquent trade accounts receivable. Unless specified by the customer, payments are applied to the oldest unpaid invoice. Accounts receivable are presented at the amount billed.

Management estimates an allowance for doubtful accounts, which was \$15,000 as of December 31, 2023, and 2022. This estimate is based upon management's assessment of the expected collectability of specific customer accounts, the aging of the accounts receivable and reasonable supportable forecasts. Specific accounts are charged directly to the reserve or bad debt expense when management obtains evidence of a customer's insolvency or otherwise determines that the account is uncollectible. There was no bad debt expense during 2023 and 2022 related to customers' accounts receivable.

F. Inventories - Inventories are stated at the lower of cost or net realizable value on an acquired or internally produced lot basis, and consist of raw materials, work-in-process, and finished goods. Cost includes material, labor, freight and applied overhead. Inventory reserves are established for obsolete inventory, lower of cost or net realizable value, and excess inventory quantities based on management's estimate of net realizable value. The Company had an inventory reserve of \$7,512 and \$10,431 at December 31, 2023, and 2022, respectively.

G. Property and Equipment - Property and equipment are carried at cost. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. Useful lives range from three years on computer equipment to sixteen years on certain equipment. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the lease. Depreciation expense totaled \$465,333 and \$425,391 for the years ended December 31, 2023, and 2022, respectively. Expenditures for renewals and betterments are capitalized and expenditures for repairs and maintenance are charged to operations as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. During 2023, various assets totaling \$22,478 with a net book value of \$12,865 were considered impaired. During 2022, various assets totaling \$83,596 with a net book value of \$7,201 were considered impaired. This impairment is offset against gain on disposal of equipment in the Statement of Income.

H. Intangible Assets - The Company reviews intangible assets for impairment and performs detailed testing whenever impairment indicators are present. If necessary, an impairment loss is recorded for the excess of carrying value over fair value. There were no intangible assets considered impaired during 2023 or 2022.

Costs incurred to secure patents have been capitalized and amortized over the life of the patents. Cost and accumulated amortization of the patents at December 31, 2023, was \$85,516 and \$22,054 respectively, and cost and accumulated amortization of the patents at December 31, 2022, was \$85,516 and \$17,596, respectively. Amortization expense related to patents was \$4,457 and \$4,414 for the years ended December 31, 2023, and 2022, respectively. Amortization expense is expected to be at least \$4,933 for each of the next five years.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

The Company considers collectability of amounts due under a contract to be probable upon inception of a sale based on an evaluation of the credit worthiness of each customer. The Company sells its products typically under agreements with payment terms of 30-60 days. The Company does not typically include extended payment terms or significant financing components in contracts with customers. The majority of the Company's contracts have an obligation to transfer products within one year. Thus, the Company elects to use the practical expedient where incremental cost of obtaining a contract, such as commissions, is expensed when incurred because the amortization period for those costs is one year or less. The Company treats shipping and handling activities that occur after control of the product transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation. Customer deposits are funds received in advance from customers and are recognized as revenue when the Company has transferred control of product to the customer. Product revenues are recognized upon shipment of goods as the customer has assumed the significant risks and rewards of ownership and the Company is entitled to payment at this point. Service revenues are recognized upon completion as the customer cannot realize the benefit of the service until fully completed.

During 2023 and 2022, revenue from the PVD industry exceeded 99% of total revenue. The balance of the revenue was from the solar market. The top two customers represented 89% and 88% of total revenue during 2023 and 2022, respectively. International shipments resulted in 1% of total revenue during 2023 and 2022.

J. Stock Based Compensation - Compensation cost for all stock-based awards is based on the grant date fair value and is recognized over the required service (vesting) period. Non cash stock-based compensation expense was \$45,485 and \$49,321 for the years ended December 31, 2023, and 2022, respectively. Non cash stock-based compensation expense includes \$0 and \$29,968 for stock grants awarded to the non-employee board members during 2023 and 2022, respectively. Unrecognized compensation expense was \$0 as of December 31, 2023. There was no tax benefit recorded for this compensation cost as the expense primarily relates to incentive stock options that do not qualify for a tax deduction until, and only if, a qualifying disposition occurs.

K. Research and Development - Research and development costs are expensed as incurred. Research and development expense for the years ended December 31, 2023 and 2022, was \$501,937 and \$375,728, respectively. Consistent with our growth strategy, we have identified niche markets that can benefit from our expertise in custom powder solutions, such as near-infrared doped phosphors and short-wave infrared applications. These applications enable extended life of phosphors for specific nighttime identification needs of defense personnel and first responders.

We are also 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

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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.

L. Income Taxes – Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would not be able to realize our deferred tax assets in the future, we would make an adjustment to the deferred tax asset valuation allowance, which would increase the provision for income taxes.

M. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the 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, tax valuation allowance, stock-based compensation and assessing changes in which impairment of certain long-lived assets may occur. Actual results could differ from those estimates.

N. 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.

O. Employee Retention Credit (“ERC”) - The Company qualified for federal government assistance through ERC provisions of the Consolidated Appropriations Act of 2021 during 2021 and 2020. The purpose of the ERC 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. This credit was recorded in the Statement of Income as an offset to payroll costs in their respective expense lines. A balance of \$40,539 appears as a tax receivable on the balance sheets at December 31, 2023, and 2022, respectively.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 3. Investments

Money market funds, where quoted prices are available in an active securities market, are classified within level 1 of the valuation hierarchy. During 2023, the Company invested in a money market fund which had a fair value of \$3,035,547 at December 31, 2023. This is valued at original cost plus interest and is included in Cash and cash equivalents on the balance sheet.

As of December 31, 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 December 31, 2023, the length of time until maturity of the bonds currently owned ranged from 5 months to 35 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
December 31, 2023				
Corporate bonds	\$ 1,500,000	\$ (9,078)	\$ —	\$ 1,490,922
U.S. government treasuries	509,478	(1,786)	—	507,692
Total investments	<u>\$ 2,009,478</u>	<u>\$ (10,864)</u>	<u>\$ —</u>	<u>\$ 1,998,614</u>
Allowance for credit losses	(15,000)			
Total investments, net	<u>\$ 1,994,478</u>			
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	<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 during December 2023. Our allowance for credit losses was \$15,000 at December 31, 2023.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 4. Inventories

Inventories consist of the following at December 31:

	December 31, 2023	December 31, 2022
Raw materials	\$ 3,222,642	\$ 1,375,669
Work-in-process	1,240,067	528,631
Finished goods	199,201	284,048
	<u>4,661,910</u>	<u>2,188,348</u>
Inventory reserve	(7,512)	(10,431)
	<u>\$ 4,654,398</u>	<u>\$ 2,177,917</u>

Note 5. Line of Credit

The Company renewed its line of credit with Fifth Third Bank for \$1 million during 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 during 2023 or 2022.

Note 6. Operating Lease Obligations

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 \$9,400 to \$9,700 with an expiration date of November 30, 2024. The Company has the option to extend the lease period for an additional five years beyond the expiration date and renewal negotiations are expected to commence in the first quarter of 2024. During 2023, the Company determined that it was reasonably certain to renew its operating lease. Therefore, an increase to the right of use asset and operating lease liabilities totaling \$499,124 has been reflected in the accompanying financial statements for the year ended December 31, 2023. There are no restrictions or covenants associated with the lease. The lease costs were approximately \$115,000 and \$113,000 during the years ended December 31, 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 December 31, 2023, assuming the lease renews at the current terms:

2024	\$ 116,829	
2025	116,829	
2026	116,829	
2027	116,829	
2028 and beyond	<u>223,925</u>	
Total minimum lease payments	691,241	
Less debt discount	87,968	
Total operating lease obligations	<u>\$ 603,273</u>	
	<u>2023</u>	<u>2022</u>
Operating cash outflows from operating leases - year-to-date	\$ 105,539	\$ 97,292
Weighted average remaining lease term – operating leases	5.9 years	1.9 years
Weighted average discount rate – operating leases	5.5 %	5.5 %

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS**Note 7. Finance Leases**

The Company also leases certain equipment under finance leases. Future minimum lease payments, by year, with the present value of such payments, as of December 31, 2023, are shown in the following table.

Total minimum lease payments - 2024	\$	49,859
Less amount representing interest		710
Present value of minimum lease payments		49,149
Less current portion		49,149
Finance lease obligations, net of current portion	\$	—
Weighted average remaining lease term – finance leases		0.7 years
Weighted average discount rate – finance leases		4.23 %

The equipment under finance lease at December 31 is included in the accompanying balance sheets as follows:

	December 31, 2023	December 31, 2022
Machinery and equipment	\$ 306,973	\$ 385,923
Less accumulated depreciation and amortization	107,440	104,376
Net book value	\$ 199,533	\$ 281,547

These assets are amortized over a period of ten years using the straight-line method and amortization is included in depreciation expense. The finance leases are structured such that ownership of the leased asset reverts to the Company at the end of the lease term. Accordingly, leased assets are depreciated using the Company's normal depreciation methods and lives. Ownership of certain assets 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.

Note 8. Common and Preferred Stock**Common Stock**

Employees received compensation of 10,683 and 4,500 aggregate shares of Common Stock of the Company during 2023 and 2022, respectively, which had an aggregate value of \$43,908 and \$14,625, respectively, and was recorded as noncash stock-based compensation expense in the financial statements.

The non-employee Board members received compensation of 8,755 shares of Common Stock of the Company during 2022. The stock had an aggregate value of \$29,967 and was recorded as non-cash stock compensation expense in the financial statements.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 8. Common and Preferred Stock (continued)

Preferred Stock

Shares of Preferred Stock authorized and outstanding at December 31, 2023 and 2022, were as follows:

	<u>Shares Authorized</u>	<u>Shares Outstanding</u>
Cumulative Preferred Stock	10,000	—
Voting Preferred Stock	125,000	—
Cumulative Non-Voting Preferred Stock (a)	125,000	—

(a) Includes 700 shares of Series A Preferred Stock and 100,000 shares of Convertible Series B Preferred Stock authorized for issuance.

Earnings Per Share

Basic income per share is calculated as income available to common shareholders divided by the weighted average of common shares outstanding. Diluted earnings per share is calculated as diluted income available to common shareholders divided by the diluted weighted average number of common shares outstanding. 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.

Employee stock options outstanding at December 31:

	<u>2023</u>	<u>2022</u>
Options outstanding	<u>41,304</u>	<u>41,304</u>

The following is provided to reconcile the earnings per share calculations:

	<u>Year ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Net income	<u>\$ 2,193,899</u>	<u>\$ 1,957,024</u>
Weighted average common shares outstanding - basic	4,528,948	4,515,002
Effect of dilution - stock options	30,838	27,889
Weighted average shares outstanding - diluted	<u>4,559,786</u>	<u>4,542,891</u>

Note 9. Stock Option Plans

On June 10, 2011, shareholders approved the SCI Engineered Materials, Inc. 2011 Stock Incentive Plan (the “2011 Plan”). The Company adopted the 2011 Plan as incentive to key employees, directors, and consultants under which options to purchase up to 250,000 shares of the Company’s common stock may be granted, subject to the execution of stock option agreements. Incentive stock options may be granted to key employees of the Company and non-statutory options may be granted to directors who are not

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 9. Stock Option Plans (continued)

employees and to consultants and advisors who render services to the Company. Options may be exercised for periods up to 10 years from the date of grant at prices not less than 100% of fair market value on the date of grant. As of December 31, 2023, there were 21,061 stock options outstanding from the 2011 Plan which expire in May 2028.

On June 9, 2006, shareholders approved the Superconductive Components, Inc. 2006 Stock Incentive Plan (the "2006 Plan"). The Company adopted the 2006 Plan as incentive to key employees, directors, and consultants under which options to purchase up to 600,000 shares of the Company's common stock may be granted, subject to the execution of stock option agreements. Incentive stock options may be granted to key employees of the Company and non-statutory options may be granted to directors who are not employees and to consultants and advisors who render services to the Company. Options may be exercised for periods up to 10 years from the date of grant at prices not less than 100% of fair market value on the date of grant. The 2006 Plan expired in 2016 and no additional stock options may be granted. As of December 31, 2023, there were 20,243 stock options outstanding from the 2006 Plan which expire in November 2024.

The cumulative status at December 31, 2023 and 2022 of options granted and outstanding, as well as options which became exercisable in connection with the Stock Option Plans is summarized as follows:

Employee Stock Options

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

Information related to the weighted average fair value of nonvested stock options for the year ended December 31, 2023, is as follows:

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
<u>Employee Stock Options</u>		
Nonvested options at January 1, 2023	6,943	\$ 1.25
Vested	<u>(6,943)</u>	<u>1.25</u>
Nonvested options at December 31, 2023	<u>—</u>	<u>\$ —</u>

Exercise prices for options outstanding ranged from \$0.84 to \$1.25 and the weighted average option price was \$1.05 at December 31, 2023, and 2022, respectively. The weighted average remaining contractual life was 2.6 years and 3.6 years at December 31, 2023, and 2022, respectively.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS**Note 10. Income Taxes**

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at December 31:

	<u>2023</u>	<u>2022</u>
Deferred tax assets (liabilities)		
NOL carryforwards	\$ —	\$ 8,917
General business credits carryforwards	—	388,776
Stock based compensation	164,962	155,707
Allowance for doubtful accounts	3,162	3,162
Reserve for obsolete inventories	1,584	2,199
Allowance for credit losses	2,108	—
R&E Section 174 expense capitalization	148,859	—
Reserve for asset retirement	20,251	18,797
Property and equipment	(410,772)	(426,394)
Total	<u>\$ (69,846)</u>	<u>\$ 151,164</u>

No valuation allowance was recorded against the realizability of the net deferred tax asset of \$151,164 at December 31, 2022.

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. As of December 31, 2022, management determined that there was sufficient positive evidence to conclude that it was more likely than not that deferred taxes of \$151,164 were realizable in part because we achieved six consecutive years of pretax income, expected profits to continue for the foreseeable future and implemented new efficiencies in the Company's manufacturing process. Accordingly, we determined that no valuation allowance was necessary at December 31, 2022.

The Company had net operating loss carryforwards available for federal and state tax purposes of approximately \$42,000 at December 31, 2022.

For the years ended December 31, 2023, and 2022, a reconciliation of the statutory rate and effective rate for the provisions for income taxes consists of the following:

	<u>Percentage</u>	
	<u>2023</u>	<u>2022</u>
Federal statutory rate	21.0 %	21.0 %
State/city tax	2.1	1.2
Non-deductible expense	0.0	0.2
Other adjustments	(2.0)	(0.7)
Effective rate	<u>21.1 %</u>	<u>21.7 %</u>

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS**Note 10. Income Taxes (continued)**

Components of the income tax provision are as follows:

	2023	2022
Current:		
Federal	\$ 306,595	\$ —
State and local	59,105	29,739
Total current	365,700	29,739
Deferred:		
Federal	\$ 212,900	\$ 493,843
State and local	8,110	18,813
Total deferred	221,010	512,656
Total	\$ 586,710	\$ 542,395

The Company follows guidance issued by the Financial Accounting Standards Board (“FASB ASC 740”) with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more-likely-than-not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than fifty percent likely of being realized on examination. For tax positions not meeting the “more-likely-than-not” test, no tax benefit is recorded.

The Company has no unrecognized tax benefits under guidance related to tax uncertainties. The Company does not anticipate the unrecognized tax benefits will significantly change in the next twelve months. Any tax penalties or interest expense will be recognized in income tax expense. No interest and penalties related to unrecognized tax benefits were accrued at December 31, 2023 and 2022. The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is open to federal and state tax audits until the applicable statute of limitations expire. There are currently no federal or state income tax examinations underway for the Company. The tax years 2020 through 2023 remain open to examination by the major taxing jurisdictions in which the Company operates.

Note 11. Fair Value of Financial Instruments

The fair value of financial instrument represents the price that would be received to sell an asset or paid to transfer a liability (an exit price), and not the price that would be paid to acquire an asset or received to assume a liability (an entry price). Significant differences can arise between the fair value and carrying amount of financial instruments that are recognized at historical cost amounts.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

- The fair values of cash and cash equivalents, trade receivables, accounts payable, short-term notes payable and finance lease obligations and current maturities of long-term notes payable and finance lease obligations: Amounts are reported at cost, approximate fair value based on the short-term nature and high credit quality of these financial instruments.
- Long-term note payable and finance lease obligations: Amounts reported in the balance sheet approximate fair value as the interest rates on the obligations were 4.2%, which approximates current fair market rates.

SCI ENGINEERED MATERIALS, INC.
NOTES TO FINANCIAL STATEMENTS

Note 12. Asset Retirement Obligation

Included in machinery and equipment is various production equipment, which per the Company's building lease is required to be removed upon termination of the related lease. Included in accrued expenses in the accompanying balance sheet is the asset retirement obligation that represents the expected present value of the liability to remove this equipment. There are no assets that are legally restricted for purposes of settling this asset retirement obligation.

Following is a reconciliation of the aggregate retirement liability associated with the Company's obligation to dismantle and remove the machinery and equipment associated with its lease:

Balance at January 1, 2022	\$	82,268
Increase in present value of the obligation (accretion expense in the corresponding amount charged against earnings)		6,900
Balance at December 31, 2022	\$	89,168
Increase in present value of the obligation (accretion expense in the corresponding amount charged against earnings)		6,900
Balance at December 31, 2023	\$	<u>96,068</u>

**Description of the Company's Common Stock Registered
Under Section 12 of the Exchange Act of 1934**

The following summary of SCI Engineered Materials, Inc.'s common stock is based on and qualified by the Company's Restated Code of Regulations ("Regulations") and Second Amended Articles of Incorporation (the "Amended Articles of Incorporation").

The Company's Amended Articles of Incorporation authorize the issuance of 15,000,000 shares of Common Stock, 10,000 shares of Cumulative Preferred Stock, 125,000 shares of Voting Preferred Stock, and 125,000 shares of Non-Voting Preferred Stock, all of which are without par value. There are no shares of Cumulative Preferred Stock and Voting Preferred Stock currently outstanding.

The holders of Common Stock, Cumulative Preferred Stock and Voting Preferred Stock are entitled to one vote per share on each matter submitted to a vote of shareholders. The holders of Non-Voting Preferred Stock are not entitled to vote. The Company's Board of Directors (the "Board") is not classified, and each member is elected annually. The Company's Regulations provide for candidates receiving the greatest number of votes to be elected.

The holders of Cumulative Preferred Stock, Voting Preferred Stock and Non-Voting Preferred Stock have the right to receive dividends prior to the payment of dividends on the Common Stock. The Board has the power to determine certain terms relative to any Preferred Stock to be issued, such as the power to establish different series and to set dividend rates, the dates of payment of dividends, the cumulative dividend rights and dates, redemption rights and prices, sinking fund requirements, restrictions on the issuance of such shares or any series thereof, preference, if any, in the event of liquidation. Also, the Board may fix such other express terms as may be permitted or required by law. In the event of any liquidation or dissolution, the holders of the Common Stock are entitled to receive as a class, pro rata, the residue of the assets after payment of the liquidation price to the holders of Preferred Stock.

The common stock is traded on OTC Markets' OTCQB market under the trading symbol "SCIA".

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No.333-97583, No. 333-67212 and No. 333-136694 on Forms S-8 of SCI Engineered Materials, Inc. of our report dated February 9, 2024, relating to the financial statements, appearing in this Annual Report on Form 10-K.

/s/ GBQ Partners LLC

Columbus, Ohio
February 9, 2024

POWER OF ATTORNEY

Each of the undersigned officers and/or directors of SCI Engineered Materials, Inc., an Ohio corporation (the "Company"), hereby appoints Jeremiah R. Young and Michael A. Smith as his or her true and lawful attorneys-in-fact, or any of them individually with power to act without the other, as his or her true and lawful attorney-in-fact, in his or her name and on his or her behalf, and in any and all capacities stated below, to sign and to cause to be filed with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, and any and all amendments thereto, hereby granting unto said attorneys, and to each of them, full power and authority to do and perform in the name and on behalf of the undersigned, in any and all such capacities, every act and thing whatsoever necessary to be done in and about the premises as fully as each of the undersigned could or might do in person, hereby granting to each such attorney full power of substitution and revocation, and hereby ratifying all that any such attorney or his substitute may do by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney in counterparts, if necessary, effective as of February 9, 2024.

Signature

Title

/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 and accounting officer)

/s/ Laura F. Shunk

Laura F. Shunk

Chairperson of the Board of Directors

/s/ John P. Gilliam

John P. Gilliam

Director

/s/ Emily Lu

Emily Lu

Director

/s/ Edward W. Ungar

Edward W. Ungar

Director

/s/ Charles Wickersham

Charles Wickersham

Director

**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 annual report on Form 10-K 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: February 9, 2024

/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 annual report on Form 10-K 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: February 9, 2024

/s/ Gerald S. Blaskie

Gerald S. Blaskie
Vice President and Chief Financial Officer
(Principal Financial and 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 Annual Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-K for the period ending December 31, 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.
February 9, 2024

**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 Annual Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-K for the period ending December 31, 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.

February 9, 2024



Contact: Robert Lentz
(614) 439-6006

**SCI Engineered Materials, Inc. Reports
2023 Fourth Quarter and Full-Year Results**

COLUMBUS, Ohio (February 9, 2024) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQB), today reported financial results for the three months and twelve months ended December 31, 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 stated "2023 marks the fourth consecutive year of record revenue and record earnings per share. These achievements are attributable to further implementation of SCI's long-term growth strategy, which includes increased presence in target markets, enhanced manufacturing capabilities and continued efforts to strengthen the Company's financial condition. We ended 2023 with a solid backlog of orders from a growing customer base and look forward to building on these key accomplishments in 2024."

Revenue

The Company had record revenue for the twelve months ended December 31, 2023. Revenue was \$27,984,083 for 2023 compared to \$23,467,030 the prior year, an increase of 19%. The 2023 fourth quarter revenue increased 21% to \$7,029,123 from \$5,818,755 for the same period a year ago. Higher volume was the most significant factor that contributed to the revenue increase in both periods versus the prior year.

Order backlog was approximately \$7.0 million on December 31, 2023, compared to \$6.1 on September 30, 2023, and \$4.1 million at 2022 year-end. Customer orders remained strong throughout the 2023 fourth quarter.

Gross profit

Gross profit was \$5,251,633 for 2023 compared to \$4,786,955 the prior year, an increase of approximately 10%. For the 2023 fourth quarter, gross profit increased over 3% to \$1,286,763 from \$1,243,603 a year ago. Both periods in 2023 benefited from higher revenue, which included additional shipments of low margin products, compared to the same periods in 2022.

Operating expenses

Operating expenses (general and administrative, research and development (R&D), and marketing and sales) for the twelve months and three months ended December 31, 2023, primarily reflected increased amounts related to the Company's revenue growth. Specific items included higher compensation and benefits, external consulting, and participation in additional industry trade shows. Operating expenses for 2023 increased 20% to \$2,757,385 from \$2,306,737 the prior year. For the 2023 fourth quarter, operating expenses were \$741,768 compared to \$578,836 a year ago, an increase of 28%.

Interest

The increase in net interest income for the twelve months and three months ended December 31, 2023, compared to the prior year periods was due to higher cash plus approximately \$2 million invested in marketable securities during the fourth quarter of 2022. Interest income also benefited from higher interest rates during 2023. For 2023, net interest income was \$286,361 compared to \$19,201 a year ago. Net interest income for the 2023 fourth quarter was \$92,218 versus \$7,302 for the same period in 2022.

Income taxes

Income taxes increased 8% to \$586,710 for 2023 from \$542,395 the prior year. Income taxes for the 2023 fourth quarter were \$71,477 compared to \$230,820 for the same period in 2022. The quarterly income tax provision for both periods was impacted by the true-up of the expected annual effective tax rate to actual. The effective tax rate for 2023 was 21.1% compared to 21.7% for 2022.

Net Income

Net income increased 12% and 28%, respectively, for the twelve months and three months ended December 31, 2023, compared to the same periods in 2022. For 2023, net income increased to

\$2,193,899 from \$1,957,024 the prior year. The Company's 2023 fourth quarter net income was \$565,736 versus \$441,249 in 2022.

Earnings per share were \$0.48 in 2023 versus \$0.43 in 2022. For the 2023 fourth quarter, earnings per share were \$0.12 compared to \$0.10 for the same period a year ago.

Cash and Investments

Cash and investments were \$7,668,472 on December 31, 2023, compared to \$5,937,231 on the same date a year ago, an increase of 29%. These amounts include investments in marketable securities of \$1,994,478 on December 31, 2023, and \$1,989,265 on the same date in 2022. The higher amount of cash at 2023 year-end was due to net cash provided by operating activities during the year, partially offset by investment in the Company's manufacturing footprint and acquisition of production equipment.

Debt outstanding

Total debt outstanding was \$49,149 on December 31, 2023, a decrease of 66% from \$146,516 the prior year. The entire amount of debt outstanding was attributable to finance lease obligations. There were principal payments of \$97,367 related to finance lease obligations during 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:

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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, 2023. 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

	December 31, 2023	December 31, 2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,673,994	\$ 3,947,966
Investments - marketable securities, short term	1,000,000	989,265
Accounts receivable, less allowance for doubtful accounts	910,647	895,839
Inventories	4,654,398	2,177,917
Prepaid purchase orders and expenses	1,338,438	136,134
Total current assets	13,577,477	8,147,121
Property and Equipment, at cost		
Property and Equipment, at cost	9,603,316	9,363,206
Less accumulated depreciation and amortization	(7,359,310)	(7,101,573)
Property and equipment, net	2,244,006	2,261,633
Other Assets		
Investments, net - marketable securities, long term	994,478	1,000,000
Right of use asset, net	592,170	185,072
Deferred tax asset	-	151,164
Other assets	78,289	85,138
Total other assets	1,664,937	1,421,374
TOTAL ASSETS	\$ 17,486,420	\$ 11,830,128
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short term debt	\$ 49,149	\$ 97,367
Operating lease, short term	111,193	105,789
Accounts payable	385,489	514,512
Customer deposits	4,871,035	1,825,595
Accrued expenses	527,595	392,233
Total current liabilities	5,944,461	2,935,496
Long term debt	-	49,149
Deferred tax liability	69,846	-
Operating lease, long term	492,080	99,834
Total liabilities	6,506,387	3,084,479
Total shareholders' equity	10,980,033	8,745,649
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 17,486,420	\$ 11,830,128

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF INCOME
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2023 AND 2022

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	2023	2022	2023	2022
Revenue	\$ 7,029,123	\$ 5,818,755	\$ 27,984,083	\$ 23,467,030
Cost of revenue	5,742,360	4,575,152	22,732,450	18,680,075
Gross profit	1,286,763	1,243,603	5,251,633	4,786,955
General and administrative expense	486,111	378,914	1,771,263	1,549,696
Research and development expense	129,530	103,531	501,937	375,728
Marketing and sales expense	126,127	96,391	484,185	381,313
Income from operations	544,995	664,767	2,494,248	2,480,218
Interest income, net	92,218	7,302	286,361	19,201
Income before provision for income taxes	637,213	672,069	2,780,609	2,499,419
Income tax expense	71,477	230,820	586,710	542,395
NET INCOME	\$ 565,736	\$ 441,249	\$ 2,193,899	\$ 1,957,024
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ 0.12	\$ 0.10	\$ 0.48	\$ 0.43
Diluted	\$ 0.12	\$ 0.10	\$ 0.48	\$ 0.43
Weighted average shares outstanding				
Basic	4,530,207	4,518,613	4,528,948	4,515,002
Diluted	4,561,481	4,546,787	4,559,786	4,542,891

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 2,281,279	2,398,155
Investing activities	(457,884)	(2,494,429)
Financing activities	(97,367)	(96,702)
NET INCREASE (DECREASE) IN CASH	1,726,028	(192,976)
CASH - Beginning of period	3,947,966	4,140,942
CASH - End of period	\$ 5,673,994	\$ 3,947,966