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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2024

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **0-31641**

**SCI ENGINEERED MATERIALS, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

4,568,127 shares of Common Stock, without par value, were outstanding at August 1, 2024.

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**FORM 10-Q**  
**SCI ENGINEERED MATERIALS, INC.**

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

**BALANCE SHEETS**

**ASSETS**

	<u>June 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
	<b>(UNAUDITED)</b>	
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,192,476	\$ 5,673,994
Investments - marketable securities, short term	509,478	1,000,000
Accounts receivable		
Trade, less allowance for doubtful accounts of \$15,000	1,178,069	854,501
Tax - Employee Retention Credit	40,539	40,539
Other	23,217	15,607
Inventories, net	2,456,169	4,654,398
Prepaid purchase orders	5,408	1,123,980
Prepaid expenses	132,613	214,458
<b>Total current assets</b>	<u>10,537,969</u>	<u>13,577,477</u>
<b>Property and Equipment, at cost</b>		
Machinery and equipment	8,785,088	8,677,446
Furniture and fixtures	140,576	129,476
Leasehold improvements	744,297	744,297
Construction in progress	183,100	52,097
	<u>9,853,061</u>	<u>9,603,316</u>
Less accumulated depreciation and amortization	<u>(7,570,941)</u>	<u>(7,359,310)</u>
<b>Property and equipment, net</b>	<u>2,282,120</u>	<u>2,244,006</u>
<b>Other Assets</b>		
Investments, net - marketable securities, long term	1,499,000	994,478
Right of use asset, net	542,087	592,170
Other assets	75,822	78,289
<b>Total other assets</b>	<u>2,116,909</u>	<u>1,664,937</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,936,998</u>	<u>\$ 17,486,420</u>

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

## SCI ENGINEERED MATERIALS, INC.

## BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2024 (UNAUDITED)	December 31, 2023
<b>Current Liabilities</b>		
Finance lease obligations, current portion	\$ 8,054	\$ 49,149
Operating lease obligations, current portion	98,140	111,193
Accounts payable	828,863	385,489
Customer deposits	949,218	4,871,035
Accrued compensation	272,268	406,971
Accrued expenses and other	149,433	120,624
Total current liabilities	<u>2,305,976</u>	<u>5,944,461</u>
Deferred tax liability	86,185	69,846
Operating lease obligations, net of current portion	448,994	492,080
Total liabilities	<u>2,841,155</u>	<u>6,506,387</u>
<b>Shareholders' Equity</b>		
Common stock, no par value, authorized 15,000,000 shares; 4,542,307 and 4,530,207 shares issued and outstanding, respectively	10,706,323	10,662,343
Additional paid-in capital	2,233,384	2,233,384
Accumulated deficit	(843,864)	(1,915,694)
Total shareholders' equity	<u>12,095,843</u>	<u>10,980,033</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 14,936,998</u>	<u>\$ 17,486,420</u>

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

**SCI ENGINEERED MATERIALS, INC.**  
**STATEMENTS OF INCOME**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023**  
**(UNAUDITED)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Revenue	\$ 5,532,710	\$ 7,457,690	\$ 13,935,805	\$ 13,254,837
Cost of revenue	4,153,771	6,204,080	11,141,750	10,676,630
Gross profit	1,378,939	1,253,610	2,794,055	2,578,207
General and administrative expense	467,573	419,083	949,834	851,496
Research and development expense	174,630	115,493	359,865	250,853
Marketing and sales expense	151,538	127,243	280,890	236,814
Income from operations	585,198	591,791	1,203,466	1,239,044
Interest income, net	96,461	63,914	183,517	112,891
Income before provision for income taxes	681,659	655,705	1,386,983	1,351,935
Income tax expense	155,153	144,346	315,153	302,556
<b>NET INCOME</b>	<b>\$ 526,506</b>	<b>\$ 511,359</b>	<b>\$ 1,071,830</b>	<b>\$ 1,049,379</b>
Earnings per share - basic and diluted (Note 7)				
Income per common share				
Basic	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.23
Diluted	\$ 0.12	\$ 0.11	\$ 0.23	\$ 0.23
Weighted average shares outstanding				
Basic	4,539,549	4,530,207	4,537,175	4,527,669
Diluted	4,569,288	4,560,315	4,566,831	4,557,863

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

**SCI ENGINEERED MATERIALS, INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023**  
**(UNAUDITED)**

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
<b>Balance 12/31/2023</b>	\$ 10,662,343	\$ 2,233,384	\$ (1,915,694)	\$ 10,980,033
Common stock issued (Note 5)	43,980	—	—	43,980
Net income	—	—	545,324	545,324
<b>Balance 3/31/2024</b>	\$ 10,706,323	\$ 2,233,384	\$ (1,370,370)	\$ 11,569,337
Net income	—	—	526,506	526,506
<b>Balance 6/30/2024</b>	<u>\$ 10,706,323</u>	<u>\$ 2,233,384</u>	<u>\$ (843,864)</u>	<u>\$ 12,095,843</u>
<b>Balance 12/31/2022</b>	\$ 10,618,435	\$ 2,231,807	\$ (4,104,593)	\$ 8,745,649
Adoption of ASU 2016-13 (Note 3)	—	—	(5,000)	(5,000)
Stock based compensation expense (Note 5)	—	1,182	—	1,182
Common stock issued (Note 5)	43,908	—	—	43,908
Net income	—	—	538,020	538,020
<b>Balance 3/31/2023</b>	\$ 10,662,343	\$ 2,232,989	\$ (3,571,573)	\$ 9,323,759
Stock based compensation expense (Note 5)	—	395	—	395
Net income	—	—	511,359	511,359
<b>Balance 6/30/2023</b>	<u>\$ 10,662,343</u>	<u>\$ 2,233,384</u>	<u>\$ (3,060,214)</u>	<u>\$ 9,835,513</u>

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

**SCI ENGINEERED MATERIALS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2024 AND 2023**  
**(UNAUDITED)**

	<b>Six Months Ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,071,830	\$ 1,049,379
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and accretion	253,262	227,799
Amortization of patents	2,466	2,207
Stock based compensation	43,980	45,485
Gain on disposal of equipment	—	(9,142)
Deferred taxes	16,339	224,992
Inventory reserve	1,020	2,472
Changes in operating assets and liabilities:		
Accounts receivable	(331,179)	(195,085)
Inventories	2,197,209	477,980
Prepaid purchase orders	1,118,572	(37,362)
Prepaid expenses	81,845	26,044
Other assets	(14,000)	579
Accounts payable	443,374	18,166
Operating lease assets and liabilities, net	(6,056)	(5,019)
Customer deposits	(3,921,817)	(358,729)
Accrued liabilities	(109,342)	(40,933)
Net cash provided by operating activities	<u>847,503</u>	<u>1,428,833</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of equipment	—	16,000
Purchases of marketable securities	(1,000,000)	(509,478)
Proceeds from maturities of marketable securities	1,000,000	489,265
Purchases of property and equipment	(287,926)	(214,522)
Net cash used in investing activities	<u>(287,926)</u>	<u>(218,735)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on finance lease obligations	(41,095)	(49,951)
Net cash used in financing activities	<u>(41,095)</u>	<u>(49,951)</u>
<b>NET INCREASE IN CASH</b>	<b>\$ 518,482</b>	<b>\$ 1,160,147</b>
<b>CASH - Beginning of year</b>	<b>5,673,994</b>	<b>3,947,966</b>
<b>CASH - End of period</b>	<b><u>\$ 6,192,476</u></b>	<b><u>\$ 5,108,113</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ 678	\$ 2,699
Income taxes	220,869	82,368
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Increase in asset retirement obligation	3,450	3,450

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

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

(UNAUDITED)

**Note 1. Business Organization and Purpose**

SCI Engineered Materials, Inc. (“SCI,” “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, and substantially all revenues are generated from customers with multi-national operations. The Company develops innovative customized solutions enabling commercial success through collaboration with end users and Original Equipment Manufacturers.

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

**Basis of Presentation** - The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation of the results of operations for the periods presented have been included. The financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2023. Interim results are not necessarily indicative of results for the full year.

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

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

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

Revenue from the photonics industry exceeded 99% of total revenue during the six months ended June 30, 2024 and 2023. The top two customers represented 89% and 88% of total revenue for the six months ended June 30, 2024 and 2023, respectively, and international shipments were 2% and 1% of total revenue for the first six months of 2024 and 2023, respectively.



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

(UNAUDITED)

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

Employee Retention Credit (ERC) - The Company qualified for federal government assistance through Employee Retention Credit provisions of the Consolidated Appropriations Act of 2021 during 2021 and 2020. The purpose of the Employee Retention Credit was to encourage employers to keep employees on the payroll, even if they were not working during the covered period because of the coronavirus outbreak. These funds were recorded in the Statements of Income as an offset to payroll costs in their respective expense lines and as a tax receivable on the balance sheets. A balance of \$40,539 appears as a tax receivable on the balance sheets at June 30, 2024 and December 31, 2023. The Company expects to receive the full ERC balance.

**Note 3. Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13 “Credit Losses – Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 significantly changes how entities measure credit losses for most financial assets, including accounts receivable and held-to-maturity marketable securities, by replacing today’s “incurred loss” approach with an “expected loss” model under which allowances will be recognized based on expected rather than incurred losses. ASU No. 2016-13 became effective for us in the first quarter of 2023. The adoption of ASU No. 2016-13 resulted in a cumulative effect of \$5,000 and was reflected in the accompanying Statement of Shareholders’ Equity in the first quarter of 2023.

**Note 4. Investments**

Money market funds – where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. The Company invested in a money market fund which had a fair value of \$3,115,202 and \$3,035,547 at June 30, 2024 and December 31, 2023, respectively. This is valued at original cost plus interest and is included in Cash and cash equivalents on the balance sheet.

As of June 30, 2024 and December 31, 2023, the Company held investments in corporate bonds rated A- or higher, and U.S. government securities that are required to be measured for disclosure purposes at fair value on a recurring basis. The bonds and government securities are considered held-to-maturity and are recorded at amortized cost on the balance sheet. These investments are considered level 2 as detailed in the table below. The Company considers investments which will mature in the next twelve months and interest receivable on the long-term bonds as current assets. The remaining investments are considered non-current assets including the investment in marketable securities which the Company intends to hold longer than twelve months. The fair value of these investments was estimated using recently executed transactions and market price quotations. At June 30, 2024, the length of time until maturity of the bonds currently owned ranged from 11 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
<b>June 30, 2024</b>				
Corporate bonds	\$ 1,500,000	\$ (10,640)	\$ —	\$ 1,489,360
U.S. government treasuries	509,478	(231)	—	509,247
Total investments	<u>\$ 2,009,478</u>	<u>\$ (10,871)</u>	<u>\$ —</u>	<u>\$ 1,998,607</u>
Allowance for credit losses	(1,000)			
Total investments, net	<u>\$ 2,008,478</u>			
<b>December 31, 2023</b>				
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>			

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

(UNAUDITED)

**Note 4. Investments (continued)**

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 Company monitors the credit quality of debt securities classified as held-to-maturity through the use of their respective credit ratings and updates them on a quarterly basis with the latest assessment completed on June 30, 2024. Our allowance for credit losses was \$1,000 and \$15,000 at June 30, 2024 and December 31, 2023, respectively. 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.

**Note 5. Common Stock and Stock Options**

Stock based compensation cost for all stock awards is based on the grant date fair value and recognized over the required service (vesting) period. Noncash stock-based compensation expense was \$43,980 and \$45,485 for the six months ended June 30, 2024 and 2023, respectively.

Employees received compensation of 8,709 and 10,683 aggregate shares of common stock of the Company during the six months ended June 30, 2024 and 2023, respectively. These shares had an aggregate value of \$43,980 and \$43,908 and were recorded as non-cash stock compensation expense in the financial statements for the six months ended June 30, 2024 and 2023, respectively.

The cumulative status of options granted and outstanding at June 30, 2024, and December 31, 2023, as well as any options which became exercisable in connection with the Company’s stock option plans is summarized as follows:

**Employee Stock Options**

	Stock Options	Weighted Average Exercise Price
Outstanding at January 1, 2023	41,304	\$ 1.05
Outstanding at December 31, 2023	41,304	\$ 1.05
Exercised	(4,401)	1.25
Outstanding at June 30, 2024	36,903	\$ 1.03
Options exercisable at December 31, 2023	41,304	\$ 1.05
Options exercisable at June 30, 2024	36,903	\$ 1.03

Exercise prices for options ranged from \$0.84 to \$1.25 at June 30, 2024. The weighted average option price for all options outstanding at June 30, 2024, was \$1.03 with a weighted average remaining contractual life of 1.9 years.

**Note 6. Inventories**

Inventories consisted of the following:

	June 30, 2024	December 31, 2023
Raw materials	\$ 1,651,737	\$ 3,222,642
Work-in-process	624,421	1,240,067
Finished goods	188,543	199,201
	2,464,701	4,661,910
Inventory reserve	(8,532)	(7,512)
	<u>\$ 2,456,169</u>	<u>\$ 4,654,398</u>

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

(UNAUDITED)

**Note 7. Earnings Per Share**

Basic income per share is calculated as net income divided by the weighted average of common shares outstanding. Diluted earnings per share is calculated as diluted net income divided by the diluted weighted average number of common shares. Diluted weighted average number of common shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive. All common stock options listed in Note 5 that were out-of-the-money or anti-dilutive were excluded from diluted earnings per share. The following is provided to reconcile the earnings per share calculations:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net income	\$ 526,506	\$ 511,359	\$ 1,071,830	\$ 1,049,379
Weighted average common shares outstanding - basic	4,539,549	4,530,207	4,537,175	4,527,669
Effect of dilution - stock options	29,739	30,108	29,656	30,194
Weighted average shares outstanding - diluted	4,569,288	4,560,315	4,566,831	4,557,863

**Note 8. Line of Credit**

The Company has a line of credit with Fifth Third Bank for \$1 million that is anticipated to be renewed prior to the maturity date of August 29, 2024. The line of credit bears interest equal to the rate of interest per annum established by Fifth Third Bank as its Prime Rate. No amounts were drawn on this line of credit as of June 30, 2024.

**Note 9. Income Taxes**

The provision for income taxes for the three and six months ended June 30, 2024 and 2023 is based on our projected annual effective tax rate, adjusted for permanent differences and specific items that are required to be recognized in the period in which they are incurred. The effective tax rate was 22.8% and 22.0% for the three months ended June 30, 2024 and 2023, respectively, and was 22.7% and 22.4% for the six months ended June 30, 2024 and 2023, respectively. The difference between the effective tax rate and the marginal rate is primarily due to the effect of state and local taxes.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Federal	\$ 143,574	\$ 137,360	\$ 291,574	\$ 283,734
State and local	11,579	6,986	23,579	18,822
	\$ 155,153	\$ 144,346	\$ 315,153	\$ 302,556

Deferred tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred taxes. Accordingly, management determined that no valuation allowance was necessary at June 30, 2024. The deferred tax liability was \$86,185 at June 30, 2024 and \$69,846 at December 31, 2023.

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

(UNAUDITED)

**Note 10. Operating Lease**

The Company entered into an operating lease with a third party on March 18, 2014 for its headquarters in Columbus, Ohio. The terms of the lease include monthly payments ranging from \$9,200 to \$9,700 with a maturity date of November 30, 2024. The Company has the option to extend the lease period for an additional five years beyond the expiration date and renewal negotiations began during the second quarter of 2024. The Company has determined that it was reasonably certain it will renew its operating lease. There are no restrictions or covenants associated with the lease. The lease costs were approximately \$29,200 and \$28,600 for the three months ended June 30, 2024 and 2023, respectively, and \$58,400 and \$57,300 during the six months ended June 30, 2024 and 2023, respectively. Additionally, the variable lease costs were approximately \$23,000 and \$10,300 for the three months ended June 30, 2024 and 2023, respectively, and \$38,500 and \$33,500 during the six months ended June 30, 2024 and 2023, respectively.

The following is a maturity analysis, by year, of the annual undiscounted cash outflows of the operating lease liabilities as of June 30, 2024:

2024	\$	58,416	
2025		116,829	
2026		116,829	
2027		116,829	
2028 and beyond		223,923	
Total minimum lease payments		632,826	
Less debt discount		85,692	
Total operating lease obligations	\$	547,134	
		<u>2024</u>	<u>2023</u>
Operating cash outflows from operating leases - year-to-date	\$	56,139	\$ 51,969
Weighted average remaining lease term – operating leases		5.4 years	1.4 years
Weighted average discount rate – operating leases		5.5 %	5.5 %

**Note 11. Finance Lease**

The Company leases certain equipment under a finance lease. Future minimum lease payments, by year, with the present value of such payments, as of June 30, 2024, are shown in the following table.

Total minimum lease payments - 2024	\$	8,086
Less amount representing interest		32
Present value of minimum lease payments		8,054
Less current portion		8,054
Finance lease obligations, net of current portion	\$	—
Remaining lease term – finance lease		0.2 years
Discount rate – finance lease		4.23 %

The equipment under finance lease at June 30, 2024, and December 31, 2023, is included in the accompanying balance sheets as follows:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Machinery and equipment	\$ 306,973	\$ 306,973
Less accumulated depreciation and amortization	122,789	107,440
Net book value	\$ 184,184	\$ 199,533

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

**(UNAUDITED)**

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

These assets are amortized over a period of ten years using the straight-line method and amortization is included in depreciation expense. Finance lease costs totaled \$20,656 and \$25,112 for the three months ended June 30, 2024 and 2023, respectively, and \$41,095 and \$49,951 for the six months ended June 30, 2024 and 2023, respectively.

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

**Note 12. Subsequent Event**

During July of 2024, 30,958 stock options were exercised by employees via cashless exercise. 10,715 options were exercised at \$1.25 per share and 20,243 options were exercised at \$0.84 per share.

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

The following discussion should be read in conjunction with the Financial Statements and Notes contained herein and with those in our Form 10-K for the year ended December 31, 2023.

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our intent, belief, and expectations, such as statements concerning our future profitability and operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "likely" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risks and uncertainties including, without limitation, the factors set forth under the caption "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2023, and other factors detailed from time to time in our other filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect our business and financial condition and could cause actual results to differ materially from plans and projections. Although we believe the assumptions underlying the forward-looking statements contained herein are reasonable, there can be no assurance that any of the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

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

### Executive Summary

For the three months ended June 30, 2024, we had total revenue of \$5,532,710 compared to \$7,457,690 for the three months ended June 30, 2023. Lower raw material costs and product mix were the key factors that contributed to the decrease. For the six months ended June 30, 2024, we had record total revenue of \$13,935,805 compared to \$13,254,837 for the six months ended June 30, 2023. Volume and pricing were similar during the first six months each year.

Gross profit was \$1,378,939 for the three months ended June 30, 2024 compared to \$1,253,610 for the same three months in 2023. Product mix was the key factor in the increased gross profit despite lower revenue. Gross profit was \$2,794,055 for the six months ended June 30, 2024 compared to \$2,578,207 for the same six months in 2023.

Operating expenses were \$793,741 and \$661,819 for the three months ended June 30, 2024 and 30, 2023, respectively and \$1,590,589 and \$1,339,163 for the six months ended June 30, 2024 and 30, 2023, respectively.

Income from operations was \$585,198 and \$591,791 for the three months ended June 30, 2024 and 2023, respectively. Income from operations was \$1,203,466 and \$1,239,044 for the six months ended June 30, 2024 and 2023, 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 near infrared applications. These applications enable extended life of phosphors for specific nighttime identification needs of defense personnel and first responders. On June 4, 2024, we announced a five-year manufacturing agreement with Battle Sight Technologies to produce ColdFIRE® powder for defense applications.

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 continue to invest in developing new products for all our markets including specialty bonding processes for Aerospace customers and innovative applications for Architectural Glass and Thin Film Solar customers. Those products involve research and development expense to accelerate time to market.

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

Several issues continue to affect national and global market conditions. First, inflation continues to impact labor, raw material costs and transportation expenses. We seek to pass these increases on to customers but are unable to predict how future or sustained inflationary pressure may impact our results. Second, supply chain disruptions continue to impact 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**

**Three and six months ended June 30, 2024 (unaudited) compared to three and six months ended June 30, 2023 (unaudited):**

*Revenue*

For the three months ended June 30, 2024, we had total revenue of \$5,532,710 compared to \$7,457,690 for the three months ended June 30, 2023. Lower raw material costs and product mix were the key factors that contributed to the decrease. For the six months ended June 30, 2024, we had record total revenue of \$13,935,805 compared to \$13,254,837 for the six months ended June 30, 2023. Volume and pricing were similar during the first six months each year.

*Gross profit*

Gross profit was \$1,378,939 for the three months ended June 30, 2024 compared to \$1,253,610 for the same three months in 2023. Product mix was the key factor in the increased gross profit despite lower revenue. Gross profit as a percentage of revenue (gross margin) was 24.9% for the second quarter of 2024 compared to 16.8% for the second quarter of 2023. The increase in gross margin benefited from lower material costs. Gross profit was \$2,794,055 for the six months ended June 30, 2024 compared to \$2,578,207 for the same six months in 2023 and gross margin was 20.0% and 19.5% for the first six months of 2024 and 2023, respectively.

*General and administrative expense*

General and administrative expense for the three months ended June 30, 2024 and 2023, was \$467,573, and \$419,083, respectively, an increase of 11.6%. The increase can be attributed to higher compensation and benefits of \$40,789, and higher professional fees and Information Technology consulting services of \$9,222.

General and administrative expense for the six months ended June 30, 2024 and 2023, was \$949,834, and \$851,496, respectively, an increase of 11.5%. The increase can be attributed to higher compensation and benefits of \$81,858, and higher professional fees and Information Technology consulting services of \$18,930.

*Research and development expense*

Research and development expense for the three months ended June 30, 2024, was \$174,630, compared to \$115,493 for the same period in 2023, an increase of 51.2%. This was due to an increase in ongoing research materials and supplies of \$59,531, and higher compensation and benefits of \$18,877 which included increased staff, partially offset by lower outside consulting expense of \$16,269. Research and development expense for the six months ended June 30, 2024, was \$359,865, compared to \$250,853 for the same period in 2023, an increase of 43.5%. This was due to an increase in ongoing research materials and supplies of \$113,226, and higher compensation and benefits of \$35,206 which included increased staff, partially offset by lower outside consulting expense of \$34,198. Specialty materials are being researched for use in niche markets which include custom applications and additive manufacturing. Our development efforts utilize a disciplined innovation approach focused on accelerating time to market for these applications and involve ongoing research and development expense.

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

*Marketing and sales expense*

Marketing and sales expense was \$151,538, and \$127,243 for the three months ended June 30, 2024, and 2023, respectively. This was an increase of 19.1%. Compensation and benefits expense increased \$22,096 during the three months ended June 30, 2024 compared to the same period in 2023, which included increased staff. Marketing and sales expense was \$280,890, and \$236,814 for the six months ended June 30, 2024, and 2023, respectively. This was an increase of 18.6%. Compensation and benefits expense increased \$41,492 during the six months ended June 30, 2024 compared to the same period in 2023, which included increased staff.

*Stock compensation expense*

Included in total expenses were noncash stock-based compensation costs of \$0 and \$395 for the three months ended June 30, 2024 and 2023, respectively and \$43,980 and \$45,485 for the six months ended June 30, 2024 and 2023, respectively. Compensation expense for all stock-based awards is based on the grant date fair value and recognized over the required service (vesting) period. There was no unrecognized non-cash stock-based compensation expense at June 30, 2024.

*Interest*

Net interest income was \$96,461, and \$63,914 for the three months ended June 30, 2024 and 2023, respectively and \$183,517, and \$112,891 for the six months ended June 30, 2024 and 2023, respectively. The increase was primarily due to higher cash and approximately \$2.0 million investment in marketable securities which benefited from an overall increase in interest rates. Interest expense related to finance lease obligations was \$231 and \$1,214 for the three months ended June 30, 2024, and 2023, respectively and \$678 and \$2,699 for the six months ended June 30, 2024, and 2023, respectively.

*Income taxes*

Income tax expense was \$155,153, and \$144,346 for the three months ended June 30, 2024, and 2023, respectively. For the first six months of 2024 and 2023 income tax expense was \$315,153 and \$302,556, respectively. The effective tax rate was 22.8% and 22.0% for the three months ended June 30, 2024 and 2023, respectively and 22.7% and 22.4% for the six months ended June 30, 2024 and 2023, respectively. The deferred tax asset was \$0, and the deferred tax liability was \$86,185 at June 30, 2024. The deferred tax asset was \$0, and the deferred tax liability was \$69,846 at December 31, 2023.

*Net income*

Net income for the three months ended June 30, 2024, and 2023, was \$526,506, and \$511,359, respectively. For the six months ended June 30, 2024 we had record net income of \$1,071,830, compared to \$1,049,379 for the six months ended June 30, 2023. Higher gross profit and interest income was partially offset by an increase in operating expenses.

**Liquidity and Capital Resources**

*Cash and cash equivalents*

As of June 30, 2024, cash and cash equivalents were \$6,192,476 compared to \$5,673,994 at December 31, 2023.

*Working capital*

At June 30, 2024, working capital was \$8,231,993 compared to \$7,633,016 at December 31, 2023, an increase of \$598,977, or 7.8%. Cash increased \$518,482, accounts receivable-trade increased \$323,568, inventories decreased \$2,198,229, prepaid purchase orders decreased \$1,118,572 and customer deposits decreased \$3,921,817. In addition, a short-term investment matured which was reinvested and appeared as long term on the balance sheet at June 30, 2024.



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

*Cash from operations*

Net cash provided by operating activities was \$847,503 and \$1,428,833 for the six months ended June 30, 2024, and 2023, respectively. In addition to the net income generated in each period, this included depreciation and amortization of \$255,728, and \$230,006, and noncash stock-based compensation costs of \$43,980 and \$45,485 for the six months ended June 30, 2024, and 2023, respectively. The changes in inventories, accounts receivable, prepaid purchase orders and customer deposits compared to December 31, 2023, were related to the increase in shipments and orders received during the first six months of 2024. Orders remain solid as customers continue to monitor inventory very closely with continued emphasis on intra-quarter shipments while also attempting to minimize their inventory at quarter end.

*Cash from investing activities*

Cash of \$287,926, was used in investing activities during the six months ended June 30, 2024, for the acquisition of production equipment. Cash of \$218,735 was used in investing activities during the six months ended June 30, 2023. Included was \$214,522, which was used for the acquisition of production equipment as well as the enclosure of our ceramic machining area. Also, investments in marketable securities continue based on free cash flow and opportunities to earn higher returns.

*Cash from financing activities*

Cash of \$41,095 and \$49,951 was used in financing activities for principal payments to third parties for finance lease obligations during the six months ended June 30, 2024, and 2023, respectively.

*Debt outstanding*

Total debt outstanding of \$8,054 was related to a current finance lease obligation at June 30, 2024, which is anticipated to be repaid in the second half of 2024. This is a decrease of 83.6% from total debt outstanding of \$49,149 at December 31, 2023.

**Off Balance Sheet Arrangements**

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

**Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in the Financial Statements and accompanying notes. Note 2 to the Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2023, describes the significant accounting policies and methods used in the preparation of the Financial Statements. Estimates are used for, but not limited to, accounting for the allowance for doubtful accounts and current expected credit losses, inventory allowances, property and equipment depreciable lives, patents and licenses useful lives, revenue recognition, income tax expense, deferred tax assets and liabilities, realization of deferred tax assets, stock-based compensation and assessing changes in which impairment of certain long-lived assets may occur. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Financial Statements. The allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts and the aging of accounts receivable. If there is a deterioration of a major customer's creditworthiness or actual defaults are higher than our historical experience, our estimates of the recoverability of amounts due us could be adversely affected. Inventory purchases and commitments are based upon future demand forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, we may be required to increase our inventory allowances and our gross margin could be adversely affected. The tax valuation allowance is based on our consideration of new evidence, both positive and negative, that could affect our view of the future realization of deferred tax assets. If we were to determine not to be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset would be necessary which would reduce our net income for that period. Depreciable and useful lives estimated for property and equipment, licenses and patents are based on initial expectations of the period of time these assets and intangibles will benefit us. Changes in

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

circumstances related to a change in our business, change in technology or other factors could result in these assets becoming impaired, which could adversely affect the value of these assets.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

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

**Inherent Limitations over Internal Controls**

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

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

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

**Changes in Internal Controls over Financial Reporting**

There were no changes in our internal controls over financial reporting for the three months ended June 30, 2024, that materially affected or were reasonably likely to materially affect our disclosure controls and procedures. Additionally, there were no changes in our internal controls that could materially affect our disclosure controls and procedures subsequent to the date of their evaluation.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

- 3(a) [Certificate of Second Amended and Restated Articles of Incorporation of Superconductive Components, Inc. \(Incorporated by reference to Exhibit 3\(a\) to the Company's initial Form 10-SB, filed on September 28, 2000\).](#)
- 3(b) [Restated Code of Regulations of Superconductive Components, Inc. \(Incorporated by reference to Exhibit 3\(b\) to the Company's initial Form 10-SB, filed on September 28, 2000\).](#)
- 3(c) [Amendment to Articles of Incorporation recording the change of the corporate name to SCI Engineered Materials, Inc. \(Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB filed November 7, 2007\).](#)
- 4(a) [SCI Engineered Materials, Inc. 2011 Stock Incentive Plan \(Incorporated by reference to the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders held on June 10, 2011, filed April 28, 2011\).](#)
- 4(b) [Superconductive Components, Inc. 2006 Stock Incentive Plan \(Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders held on June 9, 2006, filed May 1, 2006\).](#)
- 14(a) SCI Engineered Materials Code of Ethics for the Chief Executive Officer and Chief Financial Officer (Incorporated by reference to the Company's Current Report via the Company's website at [www.sciengineeredmaterials.com](http://www.sciengineeredmaterials.com)).
- 31.1 \* [Rule 13a-14\(a\) Certification of Principal Executive Officer.](#)
- 31.2 \* [Rule 13a-14\(a\) Certification of Principal Financial Officer.](#)
- 32.1 \* [Section 1350 Certification of Principal Executive Officer.](#)
- 32.2 \* [Section 1350 Certification of Principal Financial Officer.](#)
- 99.1 \* [Press Release dated August 2, 2024 entitled "SCI Engineered Materials, Inc., Reports 2024 Second Quarter and Year-to-Date Results."](#)
- 101 \* The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets at June 30, 2024 and December 31, 2023, (ii) Statements of Income for the three and six months ended June 2024 and 2023, (iii) Statement of Changes in Equity for the three and six months ended June 30, 2024 and 2023, (iv) Statements of Cash Flows for the six months ended June 30, 2024 and 2023, and (v) Notes to Financial Statements.
- 104 \* Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Filed herewith

**Signatures**

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

Date: August 2, 2024

**SCI ENGINEERED MATERIALS, INC.**

/s/ Jeremiah R. Young

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

/s/ Gerald S. Blaskie

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

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

I, Jeremiah R. Young, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2024

/s/ Jeremiah R. Young

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

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

I, Gerald S. Blaskie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SCI Engineered Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2024

/s/ Gerald S. Blaskie

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

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

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeremiah R. Young, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Jeremiah R. Young  
\_\_\_\_\_  
Jeremiah R. Young  
President and Chief Executive Officer of  
SCI Engineered Materials, Inc.  
(Principal Executive Officer)  
August 2, 2024

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

In connection with the Quarterly Report of SCI Engineered Materials, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald S. Blaskie, Vice President, and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Gerald S. Blaskie

Gerald S. Blaskie

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

August 2, 2024

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Contact: Robert Lentz  
(614) 439-6006

**SCI Engineered Materials, Inc. Reports  
2024 Second Quarter and Year-to-Date Results**

COLUMBUS, Ohio (August 2, 2024) SCI Engineered Materials, Inc. (“SCI”) (SCIA: OTCQB), today reported financial results for the three months and six months ended June 30, 2024.

Jeremy Young, President, and Chief Executive Officer stated “The Company achieved record revenue and net income for the first six months of this year. We remain focused on profitability and maintaining a strong balance sheet. During the second quarter and first half of 2024 we continued to implement our strategic growth initiatives through increased marketing activities and new product development. In recent months, the Company has experienced signs of slower economic activity. We are actively monitoring and responding to these conditions.”

*Revenue*

Revenue for the six months ended June 30, 2024, was a record \$13,935,805 compared to \$13,254,837 for the same period last year. Volume and pricing were similar for the first half of 2024 compared to 2023. The Company’s 2024 second quarter revenue was \$5,532,710 versus \$7,457,690 a year ago. Order backlog was \$2.9 million on June 30, 2024, compared to \$4.5 million on the same date last year. Lower raw material cost was the key factor that contributed to the decrease in 2024 second quarter revenue and quarter-end backlog compared to a year ago. Customer orders remained stable throughout the 2024 second quarter.

*Gross profit*

Gross profit increased 8% to \$2,794,055 for the first half of 2024 from \$2,578,207 in 2023. For the 2024 second quarter, gross profit increased 10% to \$1,378,939 from \$1,253,610 for the same period last year. Product mix was the key factor that contributed to the 2024 second quarter increase despite lower revenue.

*Operating expenses*

Operating expenses (general and administrative, research & development, and marketing and sales) for the first six months of 2024 were \$1,590,589 compared to \$1,339,163 last year. For the 2024 second quarter operating expenses were \$793,741 versus \$661,819 for the same period a year ago. The year-over-year increases for the first six months and second quarter of 2024 were primarily attributable to higher compensation and benefits, including increased staff, and higher R&D expenses related to new product development.

*Net interest income*

Net interest income increased 63% to \$183,517 for the first half of 2024 from \$112,891 for the same period last year. For the 2024 second quarter, net interest income increased 48% to \$96,461 from \$63,914 a year ago. Cash and cash equivalents of \$6.2 million on June 30, 2024, plus investments of approximately \$2.0 million in marketable securities, benefited from higher interest rates during the first six months of 2024.

*Income taxes*

Income tax expense was \$315,153 for the first six months of 2024 compared to \$302,556 last year. The effective tax rate was 22.7% for the first half of 2024 versus 22.4% for the same period in 2023. For the 2024 second quarter, income tax expense was \$155,153 compared to \$144,346 a year ago. The effective tax rate for the three months ended June 30, 2024, was 22.8% compared to 22.0% in 2023.

### *Net income*

Net income increased to a record \$1,071,830 for the first half of 2024, from \$1,049,379 a year ago. Earnings per share were \$0.24 for the first six months of this year compared to \$0.23 per share for the same period in 2023. For the three months ended June 30, 2024, net income increased to \$526,506 from \$511,359 last year. Earnings per share were \$0.12 for the 2024 second quarter versus \$0.11 per share a year ago. The year-over-year comparisons for both periods in 2024 benefited from higher gross profit and net interest income partially offset by increased operating expenses.

### *Cash and cash equivalents*

Cash and cash equivalents were \$6,192,476 on June 30, 2024, versus \$5,673,994 on December 31, 2023, an increase of 9%. In addition to those amounts, there was \$2,008,478 of investments in marketable securities on June 30, 2024, compared to \$1,994,478 on December 31, 2023.

### *Debt outstanding*

Total debt outstanding was \$8,054 on June 30, 2024, a decrease of 84% since 2023 year-end. The outstanding amount is related to a current finance lease obligation expected to be repaid in full during the second half of 2024.

### *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](http://www.sciengineeredmaterials.com) or follow SCI Engineered Materials, Inc. at:

<https://www.linkedin.com/company/sci-engineered-materials.-inc>

<https://www.facebook.com/sciengineeredmaterials/>

<https://www.twitter.com/SciMaterials>

This press release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but are not limited to, all statements regarding intent, beliefs, expectations, projections, customer guidance, forecasts, plans of the Company and its management. These forward-looking statements involve numerous risks and uncertainties, including without limitation, other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings, including the Company's Annual Report on Form 10-K for the year ended December 31, 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

	June 30, 2024 (UNAUDITED)	December 31, 2023
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 6,192,476	\$ 5,673,994
Investments - marketable securities, short term	509,478	1,000,000
Accounts receivable, less allowance for doubtful accounts	1,241,825	910,647
Inventories	2,456,169	4,654,398
Prepaid purchase orders and expenses	138,021	1,338,438
Total current assets	<u>10,537,969</u>	<u>13,577,477</u>
Property and Equipment, at cost	9,853,061	9,603,316
Less accumulated depreciation and amortization	(7,570,941)	(7,359,310)
Property and equipment, net	<u>2,282,120</u>	<u>2,244,006</u>
Other Assets		
Investments, net - marketable securities, long term	1,499,000	994,478
Right of use asset, net	542,087	592,170
Other assets	75,822	78,289
Total other assets	<u>2,116,909</u>	<u>1,664,937</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,936,998</u>	<u>\$ 17,486,420</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Short term debt	\$ 8,054	\$ 49,149
Operating lease, short term	98,140	111,193
Accounts payable	828,863	385,489
Customer deposits	949,218	4,871,035
Accrued expenses	421,701	527,595
Total current liabilities	<u>2,305,976</u>	<u>5,944,461</u>
Deferred tax liability	86,185	69,846
Operating lease, long term	448,994	492,080
Total liabilities	<u>2,841,155</u>	<u>6,506,387</u>
Total shareholders' equity	12,095,843	10,980,033
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 14,936,998</u>	<u>\$ 17,486,420</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2024	2023	2024	2023
Revenue	\$ 5,532,710	\$ 7,457,690	\$ 13,935,805	\$ 13,254,837
Cost of revenue	4,153,771	6,204,080	11,141,750	10,676,630
Gross profit	1,378,939	1,253,610	2,794,055	2,578,207
General and administrative expense	467,573	419,083	949,834	851,496
Research and development expense	174,630	115,493	359,865	250,853
Marketing and sales expense	151,538	127,243	280,890	236,814
Income from operations	585,198	591,791	1,203,466	1,239,044
Interest income, net	96,461	63,914	183,517	112,891
Income before provision for income taxes	681,659	655,705	1,386,983	1,351,935
Income tax expense	155,153	144,346	315,153	302,556
<b>NET INCOME</b>	<b>\$ 526,506</b>	<b>\$ 511,359</b>	<b>\$ 1,071,830</b>	<b>\$ 1,049,379</b>
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.23
Diluted	\$ 0.12	\$ 0.11	\$ 0.23	\$ 0.23
Weighted average shares outstanding				
Basic	4,539,549	4,530,207	4,537,175	4,527,669
Diluted	4,569,288	4,560,315	4,566,831	4,557,863

**SCI ENGINEERED MATERIALS, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023**  
**(UNAUDITED)**

	<u>2024</u>	<u>2023</u>
<b>CASH (USED IN) PROVIDED BY:</b>		
Operating activities	\$ 847,503	1,428,833
Investing activities	(287,926)	(218,735)
Financing activities	(41,095)	(49,951)
<b>NET INCREASE IN CASH</b>	<u>518,482</u>	<u>1,160,147</u>
<b>CASH - Beginning of period</b>	<u>5,673,994</u>	<u>3,947,966</u>
<b>CASH - End of period</b>	<u>\$ 6,192,476</u>	<u>\$ 5,108,113</u>